2012 annual report

Credit unions excel in providing outstanding personal services to members and in making a positive difference in communities. These values are what draw people to credit unions and keep members coming back.

Vision: Credit unions will be the financial institutions of choice for Albertans.

Mission: We help credit unions achieve success by providing collaborative solutions that support their business needs.

ray's message

Alberta Central is proud to be a part of our system's value-based commitment. We have a long history of serving Alberta's credit unions and promoting the cooperative model that helps our member credit unions succeed.

The credit union philosophy is unique in that it's value-based. From our dedication to being continuously focused on enhancing our member experience, credit unions are effectively committing to a common value proposition, one different than that of other financial institutions because it goes beyond just offering products and services, to actually creating a meaningful difference for members and the communities they live in.

Alberta Central is proud to be a part of this values-based commitment, and we have a long history of serving Alberta's credit union system and promoting the cooperative model that helps our credit unions succeed. As the financial services environment constantly changes, we know our organization has to be flexible and adaptable. As such, for Alberta Central's board, 2012 was a year of reflection and one of proactive foresight. Working with the organization's senior management team, we continued to build on work initiated in 2011, where we reviewed our core mandate and defined our role as a central. In 2012, with the results of the core mandate review in hand, Alberta Central embarked

In a marketplace where we know Albertans enjoy a wide choice of financial institutions that provide services that can differ little from one institution to the next, it is vital for credit unions to demonstrate their difference.

Many of the trends impacting the financial services industry in 2011 continued to be driving forces in 2012. We witnessed enduring struggles in the global economy, ongoing regulatory developments in the financial services sector, advancements in technology, and a continued influx of non-traditional banking competition.

For the credit union system, 2012 ended with legislation that established a legal framework allowing credit unions to be incorporated and regulated at the federal level. While Alberta credit unions are successful financial institutions under provincial jurisdiction and unlikely to pursue federal charters in the near term, the option of a federal charter provides the potential for further growth opportunities and enhanced services to credit union members. The past year also saw a collaborative effort from the credit union system nationally to promote our ding free® ATM network, where Canadian credit union members can easily locate and use our extensive national surcharge-free ATM credit union network. This builds on a successful Alberta initiative launched in 2011, providing in-branch service to members across

our strategic priorities

- think like a credit union
- deliver timely results
- provide payment technology leadership
- engage our people

on a future-focused exercise to develop our three-year strategic plan that included new mission and vision statements and four strategic priorities. Our new direction represents our commitment to continue building Alberta Central as the provincial organization that best supports credit unions in enhancing the lives of their members.

As 2012 represents my last year as chairman of the board, I would like to acknowledge my fellow board members for their valuable insight, guidance and commitment to Alberta Central over the last year. On behalf of the board, I would also like to thank the management and staff of Alberta Central for their ongoing dedication to the support of the growth and competitiveness of Alberta credit unions. It has been a pleasure, and I am confident in and excited to watch how our credit union system will continue to make a meaningful difference.

Raymond Coates
Chair of the Board

graham's message

the province. The credit union system also continued to make progress on a number of new payment technologies including the launch of Interac® direct internet payments, development of Interac® mobile, an initiative for remote cheque deposit utilizing mobile phones and a project to create a mobile phone payment feature for use at merchant locations.

In a marketplace where we know Albertans enjoy a wide choice of financial institutions that provide services that can differ little from one institution to the next, it is vital for credit unions to demonstrate their difference. The results of a 2012 Ipsos survey showed success in this as credit unions continued to rank higher than banks on customer service quality and the value placed on members' needs. So while credit unions may offer some similar products and services as other financial institutions, we excel in providing outstanding personal services to members and in making a positive difference in communities. These values are what draw people to credit unions and keep members coming back.

highlights

- in 2012, the credit union system continued to make progress on a number of initiatives
- a 2012 Ipsos survey showed that credit unions continued to rank higher than banks on customer service quality and the value placed on member needs
- total credit union system assets reached $20.4 billion

Alberta Central recognizes the external challenges facing the credit union system and in 2012 we committed to exploring how we could continue to add value to our member credit unions. We embarked on a future-focused exercise to develop our three-year strategic plan that resulted in new mission and vision statements and the creation of four strategic priorities to help us achieve our new mission and vision of driving competitive success for credit unions. Excellent progress was also made on a variety of initiatives intended to better support our member credit unions, some of which are highlighted below.

New Mission and Vision Statements

While Alberta Central's priority has always been to work alongside credit unions to ensure their success, in 2012, we created new mission and vision statements in recognition of the evolving trends in our credit union system and to demonstrate an understanding of the support we need to offer our members. These new statements guided the development of our 2013 – 2015 strategic plan that will

show our members our commitment to becoming even more credit union focused, responding more efficiently and proactively to credit union needs, and providing an increased level of payments technology leadership as the industry continues to rapidly evolve.

Payment Services Strategy

In 2012, Alberta Central facilitated credit union implementation of new electronic payment options, including Interac® eTransfer and Me2Me payments. Credit unions were also provided with training, tools and support to facilitate their electronic statement marketing and adoption strategies. Research and positioning for mobile and other industry payments developments also continued throughout the year, with Alberta Central participating in a leadership capacity with credit unions through presentations to highlight trends in the payments industry at numerous system meetings, conferences and customer forums. Alberta Central also continued participation in an industry mobile payments initiative.

Credit Union Engagement

Work continued in 2012 to enhance the way Alberta Central communicates and collaborates with our member credit unions. Throughout the year, we implemented additional opportunities for credit union engagement including the completion of an external communications audit to determine how communications can be improved, a joint management and directors' conference and a delegate engagement survey.

Additional Service Evaluation

Alberta Central engaged credit unions in advising what new potential services are important to them. Several workshops were held to discuss credit union needs in regulatory compliance, human resource services, and information technology support, all of which were viewed favourably by credit unions as an opportunity to discuss and collaborate on areas of mutual concern and best practices.

Looking Ahead

The Alberta credit union system is an important provider of financial services to Albertans and a key contributor to the provincial economy. Moving forward, credit unions have the opportunity to continue building on the unique credit union advantage. We must continue to be the trusted source for sound financial guidance and take the initiative in getting the youth in our communities off to a solid financial future, by becoming leaders in consumer financial literacy. Most importantly, we must never lose sight of our core values: being community-oriented, service focused, and always attentive and flexible in treating all members as valued individuals.

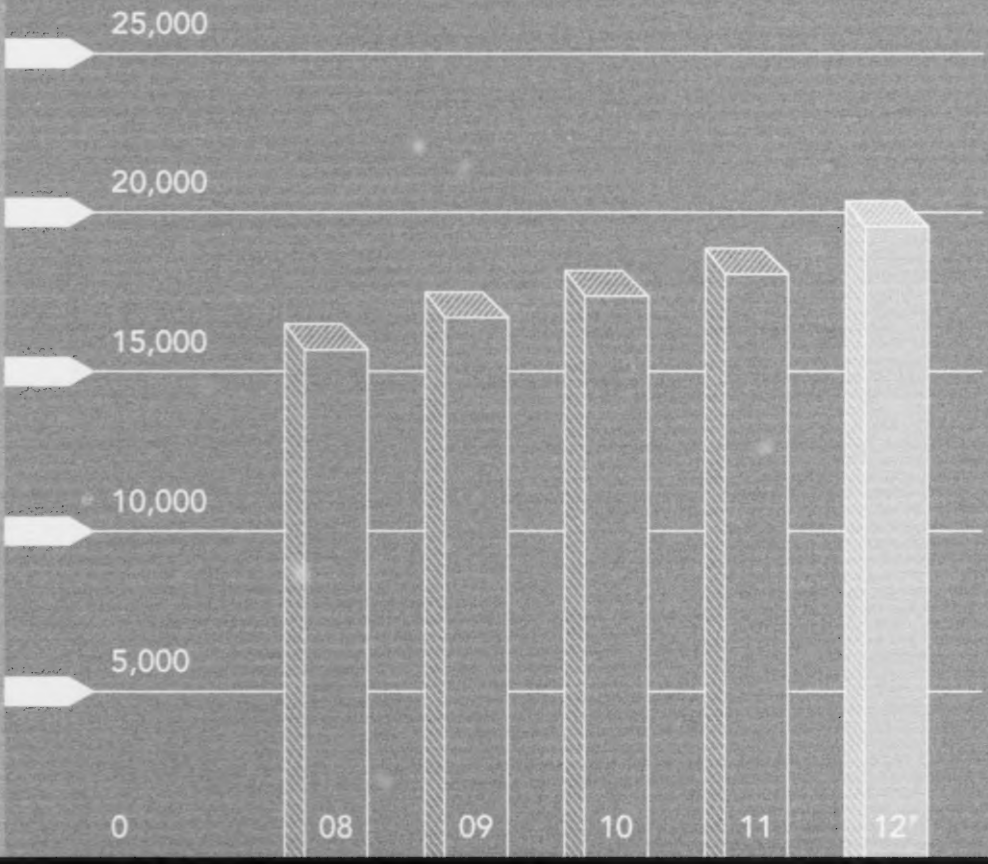
Graham Wetter
President and CEO

2012 financial highlights

alberta credit union system highlights

assets

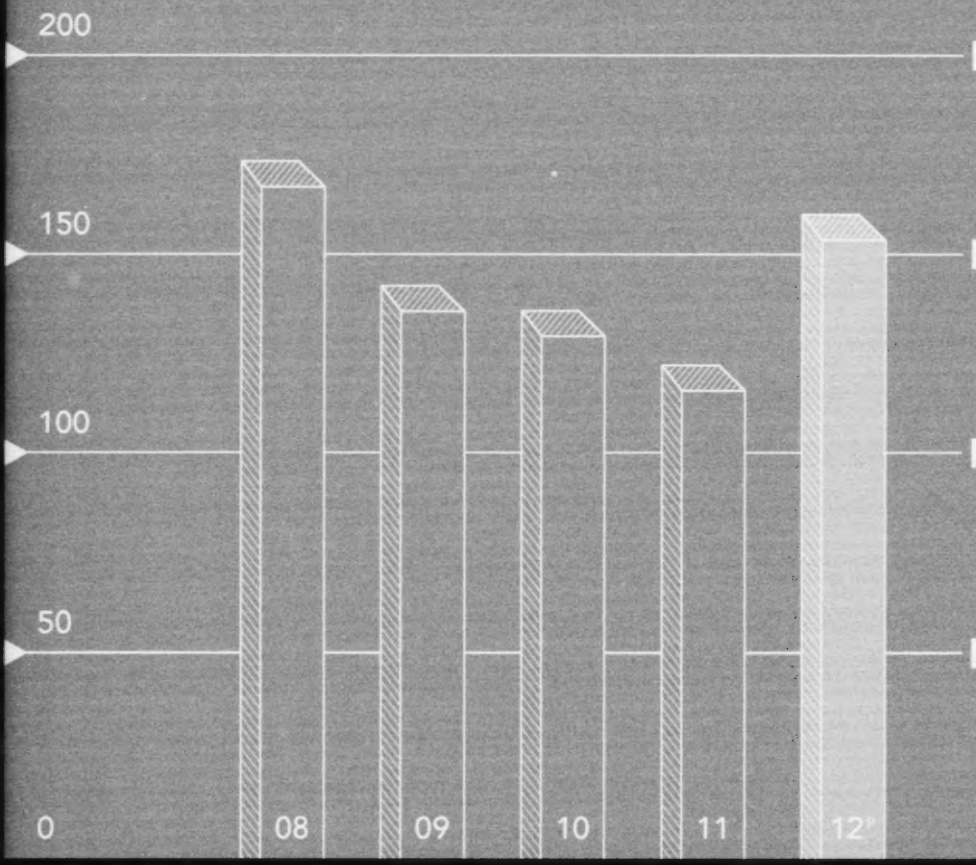
$ millions
P = preliminary



earnings

$ millions

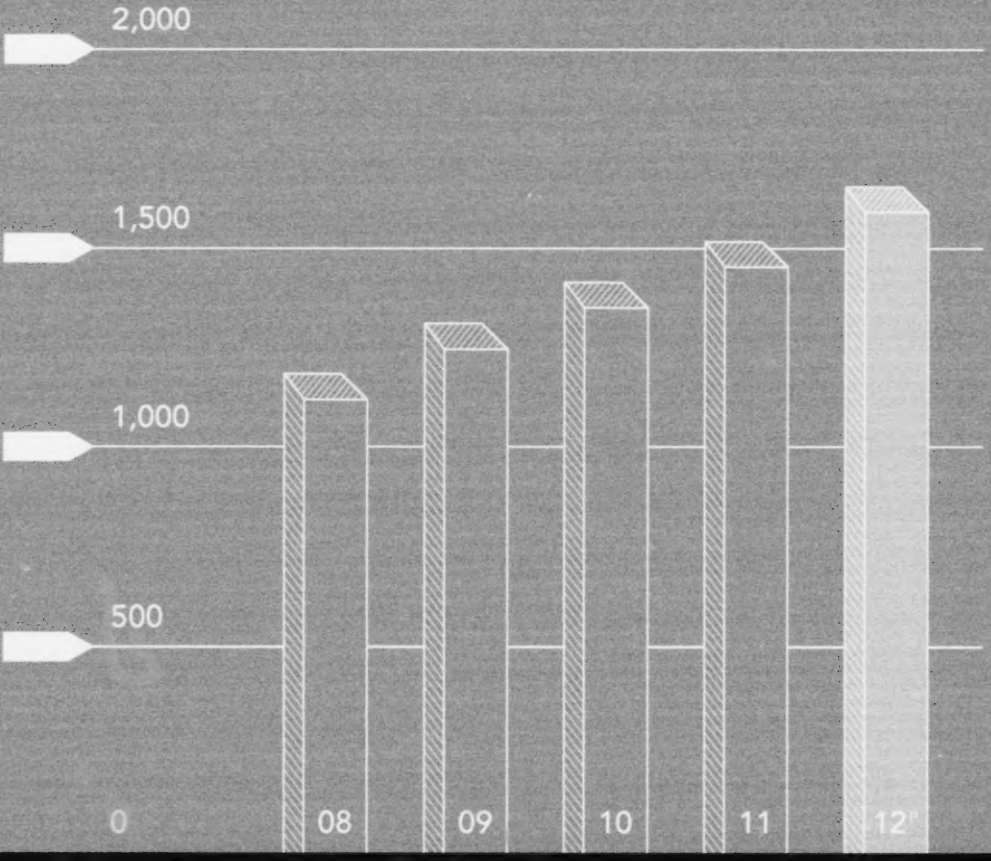
P = preliminary



equity

$ millions

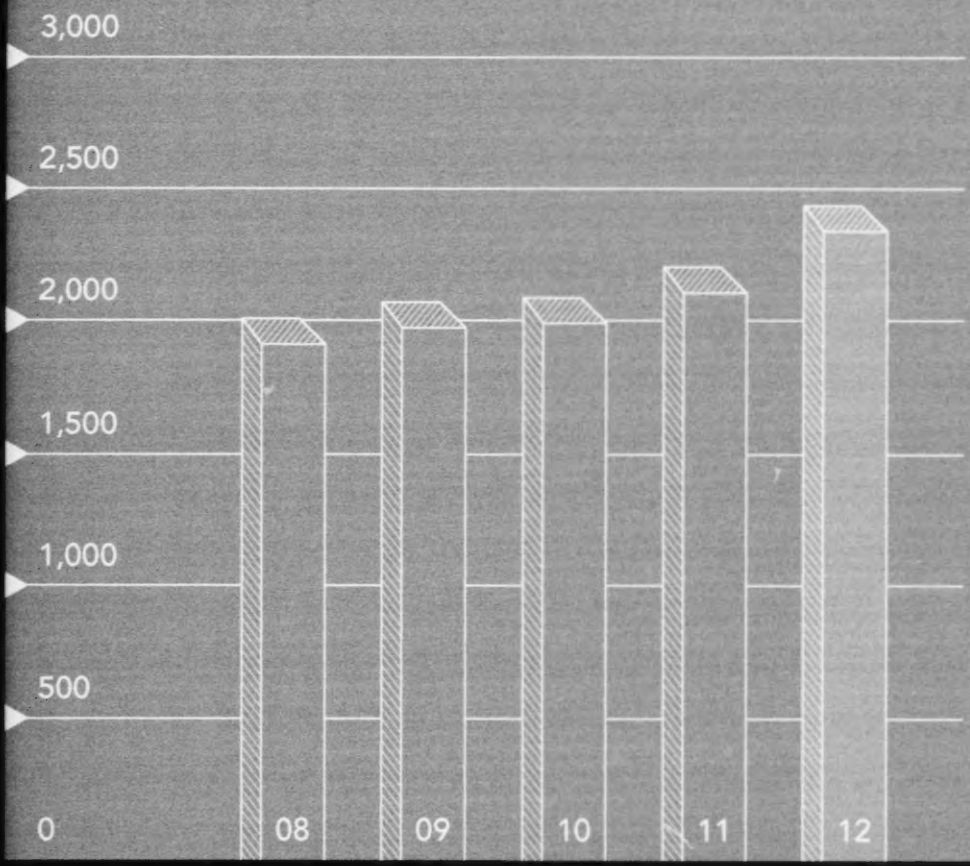
P = preliminary



alberta central highlights

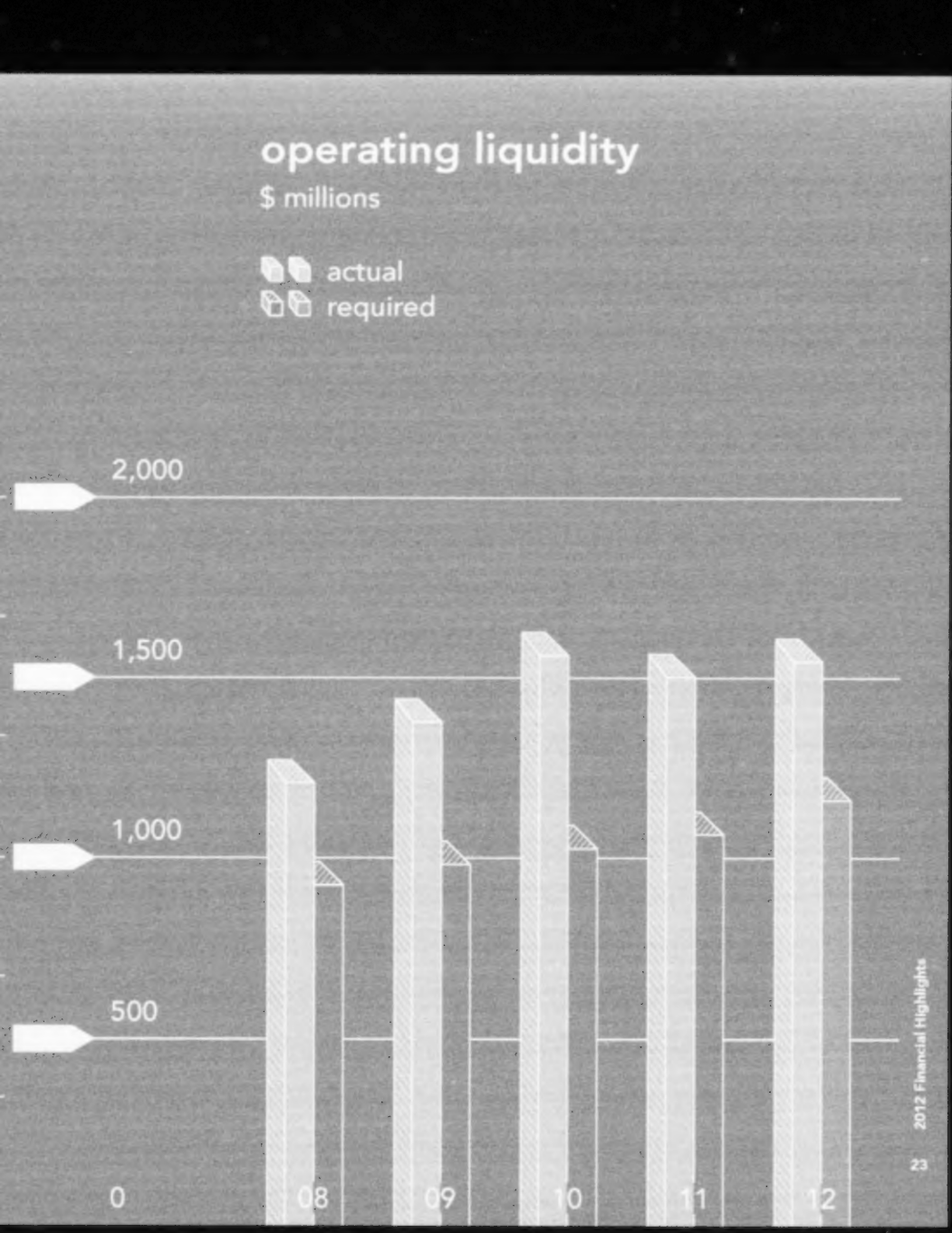
total assets

$ millions



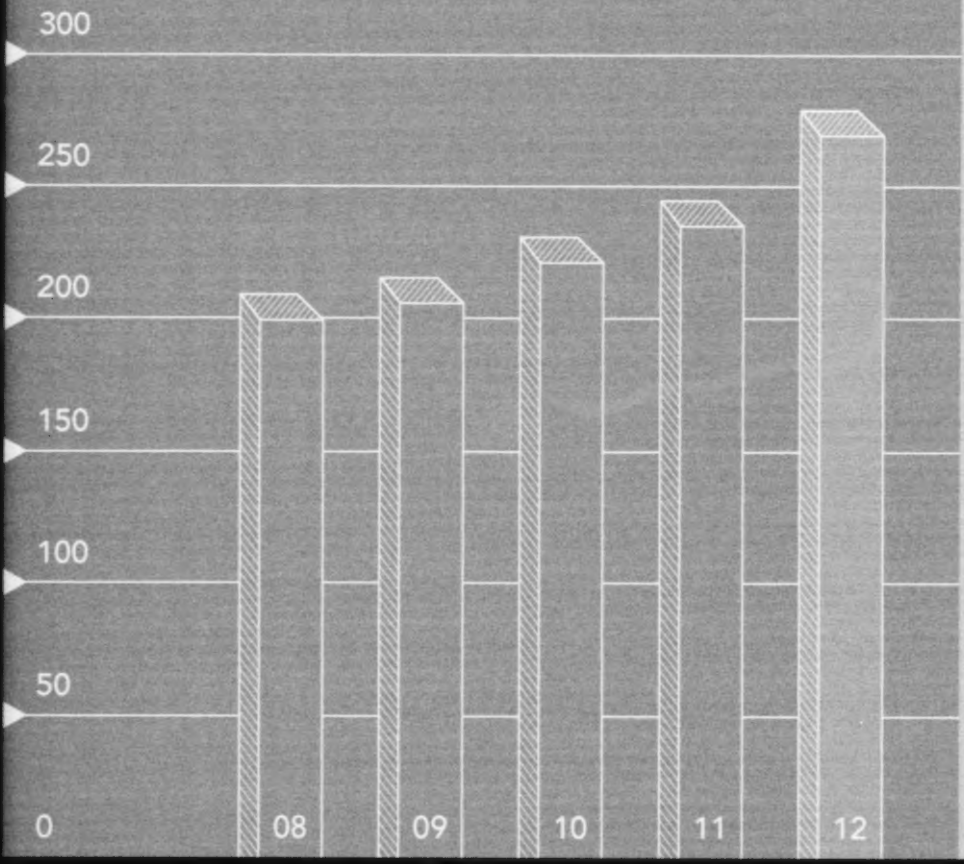
operating liquidity

$ millions



members' equity

$ millions



md&a

Overview

This section of the annual report, which provides management's discussion and analysis (MD&A) of the consolidated results of operations and financial condition of Alberta Central, should be read in conjunction with the audited consolidated financial statements as at and for the year ended December 31, 2012. The consolidated financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards (IFRS). This MD&A is dated February 22, 2013 and provides comments regarding Alberta Central's core businesses, financial performance, economic outlook and risk management.

Caution Regarding Forward-Looking Statements

This annual report includes forward-looking statements. By their very nature, such forward-looking statements require management to make assumptions and involve inherent risks and uncertainties. A number of important factors, many of which are beyond management's control, could cause actual future results, conditions, actions or events to differ materially from the targets, projections, expectations, estimates or intentions expressed in forward-looking statements. These factors include, but are not limited to, changes in general economic conditions in Canada, particularly those in Alberta, including: interest rates, currency values on liquidity conditions and delinquency rates in the Alberta credit union system; the effects of conditions in the credit union system which Alberta Central serves; legislative or regulatory developments; changes in accounting standards or policies and Alberta Central's success in anticipating and managing the risks inherent in these factors. Readers are cautioned that the foregoing list is not exhaustive. Undue reliance should not be placed on forward-looking statements as actual results may differ materially from expectations. Alberta Central does not undertake to update any forward-looking statements contained in this annual report.

Core Businesses

Alberta Central's primary responsibility is to manage the provincial liquidity pool for credit unions in the province. Liquidity has garnered increased attention from regulators in recent years as a result of the international liquidity crisis. This resulted in liquidity-focused Office of the Superintendent of Financial Institutions Canada (OSFI) reviews, emerging international regulatory guidelines under Basel III, and replacement of the *National Liquidity Fund Agreement* with an *Inter-Central Liquidity Agreement* between the provincial centrals.

As the liquidity provider and trade association for the system, Alberta Central and its joint ventures provide leadership and support to credit unions through a variety of products and services. Alberta Central's treasury and lending departments work closely together to manage the statutory and excess liquidity deposits and demand and term funding requirements for Alberta credit unions. They are responsible for maintaining a stable earning asset base while providing for the borrowing needs of Alberta credit unions and their members. Alberta Central's commercial paper program which relies on an R-1 (low) credit rating by DBRS[1] provides access to capital markets. While its core treasury and lending services are designed to meet the financing, liquidity and growth needs of the system, Alberta Central also provides foreign exchange, derivative and syndicated loan program services to Alberta credit unions. As the trade organization for Alberta credit unions, Alberta Central provides leadership and strategic direction, and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government.

With a 50.0 percent ownership interest in the Credit Union Payment Services (CUPS) joint venture, Alberta Central provides leadership in payments technology and supports the payment processing, clearing and settlement operations for the Alberta credit union system. Operations include processing of paper-based deposits and clearings, cheque imaging, electronic document management and electronic payment services such as automated funds transfers and wire transfers. Alberta Central's participation in the earnings from this venture is based on the volume of Alberta credit union payment processing activity.

Through its 31.4 percent interest in Celero Solutions (Celero) and Celero's 49.0 percent interest in Everlink Payment Services Inc. (Everlink), Alberta Central supports information technology solutions and systems for credit unions and other financial institutions, including information technology planning, systems integration, switching services, hosting, support and maintenance across a comprehensive offering of financial technology products and services.

[1] May 28, 2012 Rating Report.

Everlink is a leading provider of comprehensive, innovative and integrated payments solutions and services for credit unions, banks, and independent sales organizations across Canada. Everlink is the first financial services company in Canada to not only offer an EMV Instant Card Issuance system but to actually produce a fully personalized Chip debit card in a branch that has been certified by both Interac and MasterCard and supports *Interac* Flash™. The Instant Card Issuance solution offers credit unions the ability to provide members with highly customized cards while providing a number of additional security features.

Alberta Central is governed under the *Cooperative Credit Associations Act of Canada* and the *Credit Union Act of Alberta*, and is regulated federally by OSFI and provincially by Alberta Treasury Board and Finance (ATB&F).

Economic Environment

The year 2012 marked another year of slow growth in the global economy. The most current data available from the International Monetary Fund (IMF) measured growth in the world's advanced economies to be at a rate of only 1.3 percent in 2012 (compared to 1.6 percent in 2011) and growth in the developing economies to be at a rate of only 5.1 percent (compared to 6.3 percent in 2011). This slowdown among the world's advanced economies can most notably be attributed to the slowdowns within Europe, due in part to the continuing debt crisis in that part of the world. Canada was not immune to the slowdown in growth. In spite of the Bank of Canada (BoC) keeping its target overnight rate at just 1.0 percent throughout the year, the most current IMF data indicates Canada's growth slowed to 2.0 percent in 2012 (compared to 2.6 percent in 2011). The decrease can largely be attributed to an expanding trade deficit in Canada and its impact on the nation's real Gross Domestic Product (GDP). Alberta's performance in 2012 was also negatively affected by softening exports for energy, including persistently lower market prices for natural gas and significant discounts for Alberta's bitumen compared to world prices for oil. However, Alberta continued to show solid results in 2012 with respect to population growth, employment rates, consumer spending, farm cash receipts and housing market metrics.

2012 Financial Performance of the Alberta Credit Union System

Annual total asset growth among Alberta credit unions was 7.9 percent for the year ended October 31, 2012. This growth has improved compared to the 5-year annual average of 6.6 percent but remains below the 10-year average of 9.6 percent. Total assets surpassed the $20 billion mark, reaching $20.4 billion. Annual deposit growth among Alberta's credit unions was 7.9 percent for the year ended October 31, 2012. This growth has also improved compared to the 5 year annual average of 7.1 percent but remained below the 10-year average of 9.4 percent.

Net income before taxes and patronage dividends totaled $159.8 million, or 0.8 percent of average assets, matching the 5-year annual average, and is below the 10-year average of 1.0 percent.

Despite continuing tight financial conditions, credit union members were rewarded for their loyalty this past year with patronage and share dividends totaling over $65.0 million.

ALBERTA CREDIT UNION SYSTEM – BALANCE SHEET HIGHLIGHTS

Year ended October 31. Source: CUDGC FS Data

	2012 (preliminary)		2011*	
(thousands of dollars)	$	% Growth	$	% Growth
Total Loans	17,128,199	6.1%	16,143,691	5.1%
Residential mortgages	9,516,333	6.7%	8,917,709	5.8%
Commercial loans	4,993,862	5.9%	4,715,315	5.8%
Consumer loans	1,861,440	2.0%	1,824,379	2.9%
Agricultural loans	756,563	10.3%	685,768	(1.9%)
Total Assets	20,352,535	7.9%	18,859,632	5.8%
Total Members' Deposits	18,511,214	7.9%	17,162,420	3.4%
Total Liabilities	18,699,821	7.8%	17,342,566	3.5%
Total Equity	1,652,714	8.9%	1,517,066	7.4%

* "Residential mortgages" balances for 2011 have been adjusted for to note "Continued Assets" to be consistent with 2012 presentation.

ALBERTA CREDIT UNION SYSTEM – RESULTS OF OPERATIONS

Year ended October 31. Source: CUDGC FS Data

	2012 (preliminary)	2011
Financial margin as a % of average assets	2.77%	2.74%
Net income before taxes and patronage ($000's)	159,776	122,117
Net income before taxes and patronage as a % of average assets	0.82%	0.66%

Alberta credit union system combined financial information for years provided by the Credit Union Deposit Guarantee Corporation (CUDGC). The regulator of the provincial credit union system. Alberta Central has not verified the accuracy or completeness of this information. All financial information is based on a fiscal calendar (31 year end).

2012 Financial Performance of Alberta Central

Financial Overview

Alberta Central achieved net income of $31.9 million in 2012, the second highest net income in the company's history, compared to net income of $9.8 million in 2011. A $32.0 million increase in the estimated fair value of asset-backed commercial paper (ABCP), record earnings from the CUPS joint venture, combined with higher volumes of commercial lending and lending to credit unions contributed to the positive results. The near record earnings enabled Alberta Central's board to declare distributions to credit unions in early 2013 (see Share Capital Dividends and Other Distributions). Income before ABCP fair value adjustments and taxes was $7.7 million compared to $3.3 million in the prior year.

Alberta Central's consolidated financial position and operating results are linked to the financial position and results of Alberta credit unions. Alberta Central's bylaws require Alberta credit unions to maintain liquidity deposits and share capital with Alberta Central of not less than nine percent of each credit union's liabilities (refer to Liquidity and Regulatory Capital). As credit union member deposits grow, credit union statutory deposits with Alberta Central also grow. When credit unions experience high loan growth, credit union system liquidity decreases, which decreases excess liquidity deposits with Alberta Central and could increase credit union borrowings from Alberta Central. During 2012, growth rates in the credit union system improved while system liquidity remained strong. Alberta Central's total assets grew 11.9 percent reflective of the improved system growth and credit unions depositing excess liquidity at Alberta Central.

ALBERTA CENTRAL – FINANCIAL PERFORMANCE

Year ended December 31

(thousands of dollars)	2012 $	2012 % Growth	2011 $	2011 % Growth
Total assets	2,468,114	11.9%	2,206,002	5.6%
Total members' deposits	2,142,415	16.4%	1,840,096	1.6%
Net interest income before provisions for credit losses	14,710	2.7%	14,318	5.0%
Income before ABCP fair value adjustments	7,654	130.1%	3,327	(63.6%)

Net Interest Income

Net interest income at Alberta Central is influenced by system asset growth, system liquidity (including credit union borrowing and business loans) and interest rates. Despite the struggles of the national economy during 2012, the Alberta economy fared better which translated into an increased growth rate in the Alberta credit union system. Alberta system liquidity remained strong during 2012 as credit union deposit growth exceeded loan growth for most of the year. As a result, credit union borrowings from Alberta Central were limited until the end of the fourth quarter. Alberta Central's securities portfolio grew

as members deposited excess liquidity at Alberta Central. However, Alberta Central's holdings of short-term liquid securities are lower-yielding assets, and like its member credit unions, Alberta Central also continued to experience financial margin compression throughout 2012 due to the flat yield curve and low interest rate environment. Despite the flat interest rate environment and high levels of liquidity, net interest income grew from $14.3 million in the prior year to $14.7 million due to the overall growth in Alberta Central's balance sheet.

ALBERTA CENTRAL – NET INTEREST INCOME

Year ended December 31

	2012			2011		
(thousands of dollars)	$ Average Balances	$ Income/ (Expense)	Yield	$ Average Balances	$ Income/ (Expense)	Yield
Cash and securities	2,309,416	25,808	1.12%	2,055,844	22,958	1.12%
Credit union loans	34,822	791	2.27%	14,864	394	2.65%
Commercial and other loans	183,567	8,781	4.78%	179,642	9,352	5.21%
Other assets	18,275	–	0.00%	24,673	–	0.00%
	2,546,080	35,378	1.39%	2,275,023	32,704	1.44%
Members' deposits	2,230,328	(20,333)	(0.91%)	1,981,900	(18,118)	(0.91%)
Borrowings	36,069	(335)	(0.93%)	30,790	(268)	(0.87%)
Other liabilities	17,973	–	0.00%	27,775	–	0.00%
	2,284,370	(20,668)	(0.90%)	2,040,465	(18,386)	(0.90%)
Common share capital	197,935	(3,825)	(1.93%)	191,662	(1,912)	(1.00%)
Retained earnings and accumulated other comprehensive income	63,775	–	0.00%	42,896	–	0.00%
	261,710	(3,825)	(1.46%)	234,558	(1,912)	(0.82%)
	2,546,080	(24,493)	(0.96%)	2,275,023	(20,298)	(0.89%)
Return on assets						
Net interest income*		14,710	0.58%		14,318	0.63%

* Net interest income excluding loan prepayments and AIRCP fair value adjustments

Several strategic initiatives in 2012 sought to optimize Alberta Central's liquidity program through:

- *development of principles for a protocol with the provincial government for accessing the statutory liquidity pool during an emergency liquidity event*
- *exploring potential alternate sources of emergency liquidity*
- *enhancing yields for credit unions through more flexible investment strategies*
- *more effective use of Alberta Central's capital through seeking amendment to provincial regulatory leverage limits*

Provision for Credit Losses

As a financial institution, Alberta Central is exposed to credit risk, primarily through its investment and lending activities. Although Alberta Central's non-credit union lending portfolio is concentrated in Alberta, credit risk exposure remains diversified across the industry sectors presented in the table below.

ALBERTA CENTRAL – NON-CREDIT UNION LENDING

Year ended December 31

(thousands of dollars)	2012 $	2012 %	2011 $	2011 %
Real estate	120,294	62.8%	119,780	62.0%
Hospitality	37,622	19.6%	38,054	19.7%
Health care	23,282	12.1%	23,667	12.1%
Technology	5,710	3.0%	6,044	3.1%
Finance and insurance	3,067	1.6%	3,608	1.9%
Retail	1,728	0.9%	2,209	1.2%
	191,703	100.0%	193,362	100.0%
Specific allowance	(16,522)		(12,167)	
Non specific allowance	(1,430)		(1,600)	
Total non-credit union lending, net	173,751		179,595	

While average volumes were up over 2011 activity levels, Alberta Central's non-credit union lending portfolio decreased slightly at December 31, 2012. Alberta Central remains committed to its loan syndication program and a number of loans were syndicated with credit unions during the year to redistribute liquidity within the system and provide participating credit unions with higher yielding assets. The distribution of loans by industry sector remained consistent with the prior year.

Alberta Central management regularly reviews its portfolio to identify indications of any impairment. Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan and loan portfolio level. Provisions are recorded to reduce the carrying amount of loans to their estimated realizable values.

While Alberta Central's commercial loan and mortgage portfolio has generally remained relatively resilient through the recent period of economic stress, the challenging economic conditions of the past few years have manifested in three commercial loans being designated as impaired at December 31, 2012. Provisions against principal of $3.5 million were recognized during the year on impaired loans.

A significant amount of uncertainty remains regarding the fair value of these loans and the range of reasonable provisions for impairment is fairly broad. Management has completed a best estimate of appropriate provisions based on information currently available. The carrying value of these loans, net of provisions, is $10.5 million. Actual realization on the remaining carrying value of the loans could vary significantly, either positively or negatively, from these estimates.

A non-specific provision is established based on Alberta Central management's overall evaluation of risk in the commercial loan and mortgage portfolio in recognition of potential losses not specifically identified on an item-by-item basis. Since credit unions are Alberta Central's syndicate partners in all commercial loans, management determines the non-specific provision using a model based on delinquency rates in the credit union system combined with a qualitative assessment of changes in economic conditions and the changes in Alberta credit union system loan loss provisioning. With a general improvement in delinquency rates in the Alberta credit union system and an improving Alberta economy, Alberta Central's non-specific provision was reduced by $0.2 million during the year, to $1.4 million. The non-specific provision is eight basis points (bps) of the gross commercial loan portfolio compared to nine bps in the prior year.

Notes 2d), 3b) and 10 to the consolidated financial statements provide further details regarding specific and non-specific loan provisions.

Operating Revenues

In addition to its net interest income, Alberta Central earns operating revenue from its interest in the CUPS joint venture, complementary financial services, credit union member dues, ancillary services and various facilities, human resources and accounting services provided to its joint ventures. Operating revenues increased from $22.9 million in 2011 to $23.3 million in 2012.

Because Alberta Central has joint control of CUPS, the proportionate consolidation method is used to record Alberta Central's share of CUPS' operating results, and Alberta Central's share of both CUPS' total income and total expenses are recorded through Alberta Central's operating revenues and operating expenses. For CUPS, 2012 marked the achievement of the joint venture's highest level of earnings since its inception, and Alberta Central's share of these earnings totalled $1.3 million (2011: $1.2 million). CUPS revenues were relatively consistent with the prior year, although CUPS continues to experience a change in its volume mix with growth in electronic bill payments and automated and electronic fund transfers offsetting declines in paper-based deposits and clearings. CUPS remains committed to providing market-competitive payment processing solutions to credit unions as its key clients. As part of its 2013 initiatives, CUPS will lead the *Payment Technology Leadership* strategy and direct research and development towards value-added services that enhance member experience and credit unions' ability to quickly bring to market new payment products and technologies.

Financial services operating revenues include revenue from complementary activities in the treasury and lending areas, such as foreign exchange, asset/liability management and commercial loan application fees. Also included are ancillary services such as manuals, credit union audit services and purchasing which are offered on a direct cost basis. Revenues earned by Alberta Central's financial and ancillary services were relatively consistent with prior year results. Given credit unions' desire for additional services, Alberta Central will continue in 2013 to evaluate services that could be offered as dues programs or additional ancillary services as part of its *Think Like a Credit Union* strategic priority.

As a trade association for all Alberta credit unions, Alberta Central's role is to recognize where there is strength in shared action and to facilitate these opportunities. The trade function at Alberta Central provides leadership and strategic direction, and undertakes advocacy to represent the interests of Alberta credit unions with provincial regulators and government. Dues for these services increased in 2012 with an investment in additional dues funded activities during the year and a focus on strategic priorities for the benefit of all credit unions. Unspent 2012 dues of $0.4 million will be rebated to credit unions in 2013.

Operating Expenses

Operating expenses include those relating directly to Alberta Central and also Alberta Central's share of operating expenses in CUPS. Operating expenses, including personnel, property and equipment, administration and organization costs, totaled $25.7 million, up $1.7 million from the prior year. Approximately half of the increase in operating expenses related to activities supporting dues-funded initiatives for credit unions.

Personnel costs increased $0.6 million from the prior year and relate to approximately 68 full time equivalents (FTEs) in Alberta Central and Alberta Central's share of costs related to approximately 106 FTEs in CUPS. FTE levels in trade activities were increased to support more effective service delivery to credit unions. Overall merit increases averaged 2.6 percent, reflective of financial services sector and Alberta marketplace adjustments in 2012. Having the organizational culture and engaged staff to achieve Alberta Central's new vision and mission is a core strategy and Alberta Central is committed to investing in employees. Alberta Central's 2013 *Engage Our People* strategic initiative will continue to work towards a culture that attracts, retains and develops inspired employees.

Operating expenses in property and equipment and organization (third party costs for dues-funded activities) increased $0.4 million and $0.6 million, respectively, while administration and other expenses were consistent with the prior year. Increases in operating rent and depreciation on technology platform upgrades contributed to the overall increase in property and equipment expenses. The $0.6 million increase in organization expenses was primarily due to Alberta Central's share of costs of Interac and

mobile payment projects led nationally by the Cooperative EFT Development Association (CEDA) and Cooperative Network Services Committee (CNSC). Despite an increase in dues-funded activities, realized expense savings of $0.4 million will be passed directly to credit unions through a dues rebate payable in 2013 (see Operating Revenues).

Equity Loss in Celero

Alberta Central's 31.4 percent interest in Celero is equity accounted within the consolidated statement of income, and includes Celero's 49.0 percent equity interest in Everlink. During 2012, Celero focused on delivering on its customer promise and on further developing its professional services line of business. However, with many credit unions implementing spending reductions in information technology in light of continuing financial margin compression, Celero's revenues have not reached expected results. There were also a number of one-time costs that negatively impacted Celero's earnings in 2012. Other costs were aggressively managed to address the impact of the revenue shortfall and one-time costs.

Alberta Central's share of the results in Celero (before Everlink) was a $0.5 million loss in 2012 compared to income of $0.2 million in 2011. Everlink's 2012 results, accounted for using the equity method in Celero, were positive but relatively nominal. While prairie credit unions have benefited from Everlink's significant pricing reductions on switching services since 2009, the pricing reductions and the loss of British Columbia region business since that time, has reduced Everlink's earnings.

Business plans and financial projections for Celero reflect profitable results for 2013 with continued growth of Celero's professional services line of business and a continued focus on customer satisfaction.

Increase in Estimated Fair Value of ABCP

As outlined in Note 7 to the consolidated financial statements, at December 31, 2012 Alberta Central held non-bank and bank sponsored ABCP with a total face value of $197.6 million compared to $204.6 million in 2011. At the dates of acquisition, these short term investments were in compliance with Alberta Central's *Investment Policy* and were rated R-1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, the ABCP suffered a liquidity disruption and the notes were restructured into longer term floating rate notes that more closely matched the maturities of the underlying assets. The replacement notes are classified as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis.

The value of ABCP improved throughout 2012, rising $32.0 million which compares favourably to the $9.0 million fair value increase recorded in 2011. Management will continue to review the valuation of the notes on a quarterly basis and record fair value adjustments as appropriate under IFRS. With an active market developing in 2012, management transitioned from valuing ABCP based on a discounted cash flow model to a valuation based on bid pricing. At December 31, 2012, the ABCP portfolio was valued at 79.9 percent of its face value, compared to 62.9 percent at the end of 2011. Prior to 2012, when the market for ABCP was inactive and valuation models were used for fair valuing ABCP, there were a number of inputs requiring management judgment and consequently a fairly wide range of acceptable values. With bid pricing now forming the basis for valuation of ABCP, there is a much narrower range of fair value estimates. While the valuation of ABCP remains a management estimate and subject to market volatility, the valuation process is now far less subjective.

During 2012, ABCP generated interest income of $1.6 million (81 bps). Alberta Central received principal payments on the restructured notes of $2.5 million compared to $2.8 million received in 2011, bringing Alberta Central's total principal reductions since the restructuring to $47.3 million. Although some notes could mature earlier ($7.9 million of bank ABCP matures in December 2013), the expected repayment date for over 80.0 percent of Alberta Central's ABCP portfolio is January 2017. With improvements in ratings of ABCP continuing into 2013, over 90.0 percent of Alberta Central's ABCP is now rated BBB or higher.

These investments have been excluded from the liquidity calculations discussed later in this report to the extent they have a maturity date beyond one year. Alberta Central has operated, and continues to operate, within its legislated liquidity requirements.

ICAAP

Increased sophistication in capital markets and changes to regulation and accounting standards are requiring financial institutions to modify the way they manage capital. In today's regulatory and economic environment, financial institutions require a more cohesive and dynamic capital management process. Under OSFI's E19 guideline, the *Internal Capital Adequacy Assessment Process (ICAAP) for Deposit-Taking Institutions*, an ICAAP is required as a sound business and financial practice for banks and trust companies. While OSFI's ICAAP requirements do not apply to cooperative liquidity providers such as Alberta Central, the development, approval and integration of a document similar to an ICAAP does form part of the ATB&F regulatory framework for Alberta Central.

The purpose of the ICAAP is to inform the board of directors of the ongoing assessment of Alberta Central's risks and how much capital is necessary to allocate against these risks having considered other mitigating factors. The ICAAP also explains Alberta Central's internal capital adequacy assessment and allocation process. The ICAAP assists management in developing an appropriate internal capital target, which provides direction in its capital management. Sound capital assessment and planning are an integral component of an ICAAP and as such, Alberta Central's ICAAP also incorporates the elements of a capital plan.

Capital over and above regulatory minimums serves as a prudent measure to accommodate system growth, buffer market volatility and unexpected events and enable strategic initiatives. Alberta Central has undergone extensive risk assessment, ICAAP analysis and corresponding stress testing to determine prudent internal capital targets that exceed regulatory requirements and ensure adequate capital from an operational perspective that would withstand potential pressures from an economic downturn or adverse event.

The ICAAP has established an IOL and a Board Policy Limit (BPL) to serve as buffers to the maximum permitted provincial regulatory leverage of 15:1. Alberta Central uses the guidance in its ICAAP to manage its capital. Alberta Central is willing to accept some risks in certain circumstances that may result in temporary shortfalls in the desired capital level as defined by the IOL, provided there is a viable plan to replenish capital to the desired levels within the upcoming business cycle. Potential breaches of the BPL or regulatory capital requirements are not within Alberta Central's risk appetite.

Share Capital Dividends

The payment of share capital dividends and the timing and amount of such dividends is subject to the discretion of the board of directors after consideration of Alberta Central's capital adequacy risk appetite, its capital plan which is developed as part of its ICAAP and after a review of year-end results.

Share capital dividends of $3.8 million were calculated and paid in the first quarter of 2012 based on members' minimum monthly common share capital account balances and the average monthly Canadian prime interest rate less one percent. In 2011, share dividends were calculated based on the average monthly prime interest rate less two percent and totaled $1.9 million.

Subsequent to year end, on February 22, 2013, Alberta Central's board of directors declared share capital dividends of approximately $4.0 million based on members' minimum monthly common share capital account balances and the average monthly Canadian prime interest rate less one percent, payable March 15, 2013. These dividends will be reflected in Alberta Central's 2013 financial results.

The board will be reviewing its approach to the payment of share capital dividends in 2013.

Other Distributions

Under Basel III, regulatory capital requirements for credit unions are increasing beyond current legislated minimums and the importance of capital at the credit union level is clear. The board of directors of Alberta Central has confirmed its intent to distribute to Alberta credit unions the gains to Alberta Central on the 2007 and 2008 sale of the CU Electronic Transaction Services (CUETS) credit card joint venture, subject to any such distribution being manageable within Alberta Central's ICAAP and capital plan.

As the unrealized fair value increases in ABCP have improved Alberta Central's capital levels, subsequent to year end, on February 22, 2013, the board of directors declared a patronage distribution of $25.0 million to Alberta credit unions for payment on March 15, 2013 based on credit unions' average balances in statutory liquidity deposits from January 1 to December 31, 2012. This distribution will be reflected in Alberta Central's 2013 financial results. Alberta Central's projected capital levels after the distribution remain within the board's capital risk appetite and below the ICAAP internal operating limit (IOL).

Basel III

The Basel Committee on Banking Supervision has released global regulatory standards for liquidity and capital for financial institutions, known as the Basel III framework. The Basel III capital framework sets standards that will generally require banking institutions to maintain not only additional regulatory capital, but a higher quality of regulatory capital. The extent to which these standards will be adapted and applied to provincial centrals in Canada has not yet been determined by OSFI or ATB&F.

Alberta Central facilitated discussions in 2012 between an Alberta credit union working group and Credit Union Deposit Guarantee Corporation (CUDGC) on the potential impact of Basel III standards on Alberta credit unions. Effective January 1, 2013 Alberta credit unions are required to comply with CUDGC's new capital framework which is adapted from Basel III standards. Servus Credit Union, First Calgary Financial, Mountain View Credit Union, Chinook Credit Union, Rocky Credit Union and Eckville Credit Union were members of these working group discussions. Discussions continue into 2013 regarding an appropriate liquidity framework for Alberta credit unions.

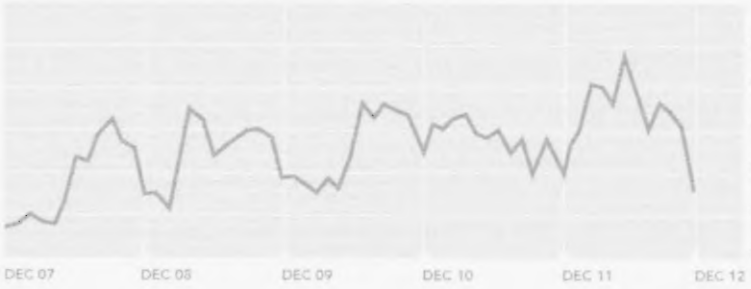
Liquidity and Regulatory Capital

Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Alberta credit unions are also required to maintain liquidity deposits at Alberta Central such that their total liquidity deposits and share capital held with Alberta Central comprise no less than nine percent of each credit union's liabilities.

Alberta Central participates with other Canadian credit union centrals in a group clearing arrangement under the terms of the *Credit Union System Group Clearing Joint Venture Agreement*. A national liquidity arrangement established under the *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multilateral credit facility, whereby Alberta Central has committed $0.4 billion. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets at December 31, 2012 was $1.2 billion. Alberta Central's liquidity reserves, when measured by year-end balances and throughout the year, were in excess of the requirements under both provincial legislation and the *Inter-Central Liquidity Agreement*. The chart below plots the relationship of Alberta Central's required and actual liquidity over the past five years.

LIQUIDITY RATIO
Actual to Required



Alberta Central's total liquid assets consist of the following:

ALBERTA CENTRAL LIQUID ASSETS

Year ended December 31

(thousands of dollars)	2012	2011
Cash and cash equivalents	95,189	67,856
Securities*		
Federal and provincial government guaranteed bonds and T-bills	108,750	103,902
Bankers' acceptances	930,327	1,037,584
Commercial paper**	474,733	357,675
Total liquid assets	1,608,999	1,567,017

* Securities held-to-maturity are carried at amortized cost basis.

** Commercial paper has a rating of R-1 (mid) or higher, provides principal and interest subject to ABCP with a maturity of less than one year (if currently invested).

Alberta Central's objectives when managing capital are:

- *to comply with the capital requirements set by its regulators*
- *to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business*
- *to maintain a consistently strong credit rating and investor confidence*
- *to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate*

Alberta Central's capital levels are regulated under guidelines issued by OSFI and ATB&F. These regulations require Alberta Central to not exceed a prescribed maximum borrowing multiple (the ratio of debt to regulatory capital). Through an ICAAP, Alberta Central has established an ICL and a BPL to serve as buffers to the maximum permitted regulatory capital leverage. For purposes of these calculations, borrowings are composed of members' deposits, loans and notes payable and certain derivative financial liabilities. Alberta Central's borrowing multiple positions are outlined below.

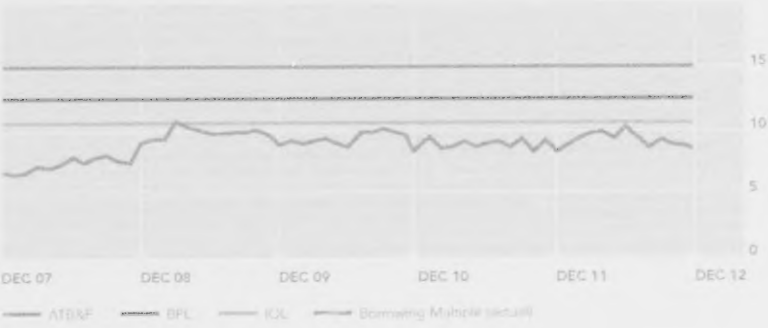
ALBERTA CENTRAL – BORROWING MULTIPLE

Year ended December 31

(thousands of dollars)	2012	2011
Common shares	199,285	193,716
Retained earnings	78,535	49,719
Less: deductions from capital	(4,813)	(8,004)
Total regulatory capital	273,007	235,431
Borrowing multiple	8.0:1	8.3:1
Maximum borrowing multiples:		
OSFI	20:1	20:1
ATB&F	15:1	15:1
ICL	10.5:1	10.5:1
BPL	12.5:1	12.5:1

Alberta Central's leverage remained below both its regulatory capital and internal capital maximums as presented in the following chart.

BORROWING MULTIPLE



Off-Balance Sheet Arrangements

In the normal course of business, Alberta Central participates in a variety of financial transactions that are not recognized on the consolidated statement of financial position. These include commitments to extend credit, standby letters of credit and financial guarantees. Alberta Central enters into various commitments to provide credit unions, affiliates, related parties and credit union members with sources of credit. These may include term loans, lines of credit and overdrafts. Any undrawn portion of a credit commitment, which represents the excess of the authorized limit over the outstanding balance, is not recognized on the consolidated statement of financial position.

Internal Control Over Financial Reporting

There have been no changes in Alberta Central's design of internal controls and procedures over financial reporting during the year ended December 31, 2012 that have materially affected, or are reasonably likely to materially affect, Alberta Central's internal control over financial reporting during the period covered by this management discussion and analysis.

Critical Accounting Estimates and Assumptions

The accompanying consolidated financial statements have been prepared in compliance with IFRS. The significant accounting policies used in preparation of the audited financial statements are described in Note 3. These accounting policies require management to make estimates and assumptions that affect reported amounts of assets and liabilities at

the date of the consolidated financial statements and the reported amounts of income and expenses during the period. Actual results could differ from those estimates. Significant areas of estimation uncertainty as described in Note 2d) include those relating to the provision for specific and non specific credit losses, the fair value of financial instruments and the calculation of deferred income taxes.

Current Year Changes in Accounting Policies
There were no changes in Alberta Central's accounting policies during 2012.

Future Changes in Accounting Policies
A number of new and amended IFRS standards have been issued and will be applicable for Alberta Central's fiscal years after 2012. These are described in Note 3nl of the consolidated financial statements. Alberta Central does not expect a material impact to its consolidated financial statements from the adoption of these standards with the exception of a change in recognition of actuarial gains (losses) and remeasurements from net income to other comprehensive income and enhanced disclosures emanating from a number of the new standards.

2013 Economic Outlook

Global growth in 2013 is forecast to be similar to 2012. Moderate improvements over 2012 may be observed due in part to positive data now appearing in the United States housing market and its impact on consumer spending as well as financial conditions in Europe which show signs of stabilizing. Low growth expectations further indicate that 2013 will likely be another year of low interest rates. In addition to weak growth and low inflation figures, late in 2012, the Federal Reserve committed to keep its key short term rate near zero until national United States unemployment drops below 6.5 percent. This marks a significant departure from their previous inflation-control target methodology and may create a situation where key rates remain low, in spite of increasing inflation, if the United States unemployment rate remains above 6.5 percent. The BoC continues to apply an inflation-control target. Recent figures suggest Canada's inflation rate will be closer to the bottom of the BoC's target range for at least the first half of 2013. In Alberta, 2013 is expected to be another year of solid economic growth due to increased investment activity, strong net migration and additional consumer spending supported by wage increases and an unemployment rate that remains among the lowest in Canada. The most recent data from the Conference Board of Canada forecasts Alberta's 2013 real GDP at 2.9 percent, planned increases for non-unionized wages are estimated to average 3.8 percent, and unemployment will decrease to 4.4 percent. The provincial government's recent announcement of significant deficit spending in 2013 indicates that without increases to royalty revenue, Alberta's economic growth may be negatively impacted by government spending cuts or increased taxes in subsequent years.

Risk Management

Alberta Central recognizes risk management as one of its most important responsibilities. Risk is inherent in business and, when managed appropriately, is a source of growth and sustainability. Alberta Central's objective is to optimize risk for the protection and creation of member value. Optimizing risk means striking a balance between risk and reward and at the same time ensuring that Alberta Central's risk-taking is consistent with its strategic plans and board approved risk appetite. In order to meet risk management objectives, risks must be identified, understood, measured, assessed and managed on an enterprise-wide basis. Implementing an effective enterprise risk management (ERM) program is an investment which entails significant time and effort to ensure that risks are recognized, governed and appropriately managed in providing for the safety, soundness and good reputation of Alberta Central as a whole.

Stress Testing

Stress testing is a risk management technique used to evaluate the potential effects of a set of specified changes in risk factors on an institution's financial condition corresponding to exceptional but plausible events. Stress testing is an important tool for management to use in developing business strategy, risk management and capital management decisions. In 2012, Alberta Central developed an umbrella stress testing policy to govern its stress testing program.

Enterprise Risk Management (ERM) and Risk Assessment Process

ERM Principles

Alberta Central's ERM system is guided by the following 12 principles from IS31000 (Canada). Risk management:

- *creates and protects value*
- *is an integral part of all organizational processes*
- *is part of decision making*
- *explicitly addresses uncertainty*
- *is systematic, structured and timely*
- *is based on the best available information*
- *is tailored*
- *takes human and cultural factors into account*
- *is transparent and inclusive*
- *is dynamic, iterative and responsive to change*
- *facilitates continual improvement of the organization*
- *requires strong support from senior management*

ERM Framework

The ERM framework integrates Alberta Central's risk management process into the overall strategic management and governance structure of the organization.

Key components of Alberta Central's ERM framework include:

- *understanding the context including the nature and complexity of risk associated with Alberta Central's products and services*
- *establishing risk management policies at both the management and governance levels*
- *accountability for managing risk*
- *identifying and documenting the owner of each risk*
- *ensuring that adequate resources are available to manage risk*
- *establishing communication and reporting mechanisms*
- *establishing organizational risk appetite on significant risks for stakeholders*

In 2012, Alberta Central's board of directors approved risk appetite statements pertaining to credit (lending and investments), capital, liquidity, market, strategic, operational, governance and legal and regulatory risks.

ERM Process

The ERM process is the predominant method of managing risk throughout Alberta Central. Key components of Alberta Central's risk management process include:

- *communication and consultation*
- *risk identification*
- *risk analysis*
- *risk evaluation*
- *risk treatment*
- *monitoring and review*
- *recording and reporting*

Alberta Central's ERM system provides the policies and structure to allow it to identify, assess, mitigate where appropriate, and accept risk in accordance with its risk appetite. This process ensures that Alberta Central is cognizant of the material risks that it faces and mitigates them as necessary until they reach an acceptable level.

Risk Identification

Risk identification is an integral component of Alberta Central's risk management process. Each risk identified is categorized in order to facilitate measurement, monitoring and reporting. Material risks are identified through a number of processes including reviews of all products and services, corporate business plans, strategic plans and financial reports. Additionally, Alberta Central relies on internal risk analysis, communication with each business unit, and ongoing dialogue with stakeholders and peers to identify material risks. In order to keep abreast of current events and developments, Alberta Central's management team is active in various professional associations, credit union system committees and boards of various organizations.

Risk Severity Assessment

Businesses take risks based on two factors: the probability an adverse circumstance will occur and the cost of the adverse circumstance. Alberta Central assesses the severity of each risk based on management's judgment regarding the likelihood that an identified risk will materialize and the impact or consequences of an identified risk event. Each risk is measured, and where possible a quantitative measurement is used. Each risk has the potential to affect one or more of the following categories of measurement:

- *financial in that it affects profit and/or capital*
- *reputation in that it involves image, ethics, trust, etc.*
- *efficiency in that it affects operational proficiency or capability*
- *people in that it refers to risks that affect staff, morale, retention, and/or recruiting*

Once all risks have been assessed by each member of the Management Risk Committee, an average of each committee member's score for each identified risk is used to determine the severity level for each risk. The risks are then ranked from highest to lowest based on the average risk severity scores, indicating the materiality of the residual risks. Upon determining the severity of the risk, the committee assesses the controls surrounding the risk and any mitigating actions deemed appropriate in response to the assessed risk severity to reduce the risk level.

Responding to Risk

Once a risk has been assessed, Alberta Central management determines how the organization will respond to the risk. Depending on the level of risk and the tolerance for that risk, one of four responses are selected:

- *accept the risk as it is without further action*
- *treat the risk by applying additional mitigation to bring the risk to a tolerable level*
- *transfer the risk by insuring or outsourcing the risk*
- *reject the risk and discontinue the business or service*

Once the risk response is selected, it is followed by maintaining, monitoring and updating the ERM framework. Alberta Central has determined that the following risk categories are most applicable to its business operations.

Capital Adequacy Risk

Capital adequacy risk is the risk of financial loss and/or regulatory intervention due to the failure of Alberta Central to maintain the prescribed capital base to meet regulatory requirements and/or the capital base necessary to support its business plans. Alberta Central's capital management processes anticipate the capital requirements and the sources that will be drawn upon to maintain the necessary level of capital throughout the year. Management regularly monitors and reports the levels and quality of the company's capital to the Audit and Finance Committee. Alberta Central's ICAAP, IOL and BPL are approved annually by the board of directors.

Liquidity Risk

Liquidity risk is the risk of being unable to meet financial commitments through regular cash flows which can lead to losses as Alberta Central could be forced to raise funds at higher costs or sell assets at reduced prices. For Alberta Central this means ensuring that managed assets must be available to meet its own needs as well as the needs of Alberta credit unions.

Alberta Central ensures there is sound management of liquidity and funding risk. Alberta Central is willing to accept liquidity risks that carry a low probability of triggering reliance on contingent sources of liquidity and increased cost of funds. Alberta Central's investments are of high grade credit quality that can be pledged or sold to provide liquidity as needed, even under stressed market conditions. As a further risk management strategy, Alberta Central maintains a well-diversified funding structure and develops external sources of liquidity outside the credit union system. Cash flow forecasting, liquidity stress testing and contingency planning are key elements of the liquidity risk management framework. In 2012, Alberta Central initiated discussions with various levels of government around the development of protocols that would better prepare the Alberta credit union system for an unanticipated liquidity event.

Alberta Central is the liquidity manager for the Alberta credit union system, and as such, liquidity is strictly regulated by both provincial and federal regulations and guidelines. Policy and procedures are established to comply with regulations and guidelines and are not open to interpretation and must be abided by at all times.

Alberta Central's liquidity management policies and procedures include:

- *specific limits for types, amounts, and duration of investments*
- *investment dealer restrictions*
- *approved sources of deposit funds*
- *approved sources for borrowing funds*
- *monitoring actual cash flows on a daily basis*
- *forecasting future cash flow requirements*
- *scenario testing and contingency planning*
- *daily monitoring of liquidity position*
- *quarterly reports to Alberta Central's internal Asset Liability Committee and the board of directors*

Alberta Central has established investment and lending policies to ensure the company is able to generate sufficient funds to meet all of its financial commitments in a cost effective manner as they occur. These policies are annually reviewed and approved by the board of directors. Furthermore, the board of directors reviews, on a regular basis, reporting on Alberta Central's compliance with provincial regulation related to holdings of government securities or certain other qualifying liquid assets maturing within one year (refer to Liquidity and Regulatory Capital). The Asset Liability Committee and Audit and Finance Committee review, on a regular basis, reporting on Alberta Central's current and forecast liquidity position as well as the composition and amount of liquid assets held within the investment portfolio. Stress testing is performed to assess the amount by which the level of liquid assets could decrease while continuing to meet regulatory requirements; the results of these stress tests are reported to the Asset Liability Committee and Audit and Finance Committee on a regular basis. In 2012, Alberta Central began a review of its liquidity stress testing programs. The results of the review are expected to result in the introduction of significant enhancements to Alberta Central's stress testing program in 2013.

Market Risk

Market risk is comprised of interest rate risk, foreign exchange risk and other price risk.

Interest Rate Risk

Interest rate risk is the risk that interest rate fluctuations may erode Alberta Central's earnings or economic value. Alberta Central's consolidated statement of financial position is comprised of interest-bearing assets and liabilities with different maturity dates, which expose Alberta Central to interest rate risk. Monitoring exposures to interest rate fluctuations and their potential impacts on interest margins is accomplished through interest rate scenario testing of assets, liabilities and equity against the effects of multiple possible interest rate increases and decreases. Alberta Central's interest rate risk policy defines specific tolerances for changes in net interest income and net economic value. Alberta Central also uses gap analysis and simulation modeling to analyze the effects of interest rate fluctuations on net interest income. This forecasting is then used in developing defensive strategies, where appropriate, to ensure any variations are managed within established tolerance limits.

Foreign Exchange Risk

Foreign exchange risk is the risk that Alberta Central's earnings will be negatively affected by currency fluctuations. Alberta Central's foreign exchange policies and procedures specifically identify the types of transactions permitted, authorizations, limits and monitoring and reporting requirements. Alberta Central is authorized to hold up to US$5.0 million, £0.5 million and €0.5 million in excess of, or short of, its foreign currency liabilities. Alberta Central's exposure to foreign exchange fluctuations is monitored on a daily basis.

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

Alberta Central's portfolio consists primarily of short-term, highly liquid, high investment grade credit quality securities. Business is restricted to activities that are understood and that can be adequately priced. Strong risk management is applied as it is expected by stakeholders, regulators and rating agencies to support investment risk. The board, on the recommendation of the Audit and Finance Committee, establishes written policies to ensure prudent investment standards are applied. Alberta Central's *Investment Policy* is reviewed and approved by Alberta Central's board annually. The policy is approved by ATB&F each year before being adopted by Alberta Central. Asset liability management is the responsibility of qualified treasury personnel with management oversight from an internal management committee, the Asset Liability Committee, which reviews market risk exposure at quarterly meetings. Alberta Central's most significant other price risk relates to its holdings of ABCP, as described in Note 7 to the audited consolidated financial statements.

Credit Risk

Credit risk is the potential for loss due to the failure of a borrower or counterparty to meet its financial or contractual obligations. Alberta Central is exposed to credit risk in its lending operations and in its investment activities. Alberta Central's lending and investment policies addressing credit risk are reviewed and approved annually by the board of directors. Management regularly reviews credit procedures to ensure they provide relevant, appropriate guidance for the underwriting and administration of all types of loans. Alberta Central's lending activity is predominantly to serve the needs of Alberta credit unions and their members. Alberta Central's commercial lending activity is usually as a secondary syndication partner with credit unions; however, loans must meet Alberta Central's lending criteria without reliance on the due diligence process of any syndication partner. Alberta Central employs a number of important principles to manage credit exposures:

- *board approved Lending Policy*
- *a management Credit Committee whose duties include review of lending policies and approval of larger credits*
- *delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of those limits and the review of larger credits by senior lending personnel prior to recommendation to the management Credit Committee*
- *use of a credit risk classification system, which assigns a risk rating to all syndicated commercial loans that are reviewed on a regular basis*
- *employment of personnel engaged in credit granting who are qualified and experienced in lending*
- *lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment*
- *annual reviews of loans*
- *independent reviews by internal audit which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee*

Alberta Central maintains both specific and non-specific allowances for credit losses. Specific allowances are established, based on management's knowledge and review of individual loans. The non-specific or general allowance exists to provide an additional allowance against possible volatility in future cash flows as a result of unexpected loan defaults. The non-specific allowance for credit losses is used to recognize losses incurred but not specifically identified. It is estimated based on current non-delinquent credit balances, delinquency rates in the credit union system and the levels of loan loss provisioning in the Alberta credit union system.

Operational Risk

Operational risk includes risk associated with conducting business operations of Alberta Central. It is the risk of loss arising from ineffective or failed internal processes, technology or human performance. Its impact can be financial loss, loss of reputation, loss of competitive position or regulatory censure. Due to the nature of operational risk, it cannot be completely eliminated. Alberta Central manages operational risk through established policies and procedures and systems of internal controls, including:

- *programs aimed at attraction and retention of qualified staff*
- *active performance management processes*
- *encouraging and facilitating employee skill development*
- *employee code of conduct certification process*
- *ongoing implementation of ERM processes including development of business continuity plans*
- *development of effective policies and procedures*
- *clearly delegated authorities and limits*
- *ongoing program of internal audit of effectiveness of operations*
- *regular review of insurance coverage to ensure adequate protection against insurable losses*

Strategic Risk

Strategic risk is the risk to Alberta Central's earnings or capital arising from business decisions or flawed implementation of those decisions. This risk is a function of the compatibility between the organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals and the quality of implementation. Alberta Central employs a number of means in order to ensure that its strategic plans are appropriate and relevant including:

- *three Managers Committee meetings per year (a forum established by Alberta Central to gather input from credit unions regarding their needs and future direction)*
- *participation by representatives of Alberta Central in various national system committees and professional associations to keep abreast of the current environment*
- *processes to gather strategic planning input from members of Alberta Central's senior management team*
- *engagement of a cross-section of staff in the strategic planning process*
- *joint management/board strategic planning sessions which are conducted annually*
- *regular discussion of strategic plans and emerging strategic issues at all board meetings*
- *feedback surveys conducted regularly to gather input from the board of directors, credit union clients, and Alberta Central staff and used to develop action plans as appropriate*
- *analysis and assessment of strategic plan risk led by risk management personnel*

Legal and Regulatory Risk

Legal and regulatory risk is the risk of loss due to failure to comply with legal and regulatory requirements. Alberta Central's activities are subject to reviews and periodic on-site examinations by OSFI and ATB&F. Alberta Central's chief compliance officer maintains a legislative and regulatory compliance management system through which legislative and regulatory requirements are annually reviewed and reported. The effectiveness of the controls and processes utilized by the chief compliance officer are annually reviewed and reported to the Audit and Finance Committee by internal audit. New policies and procedures are developed to address legislative and regulatory requirements as appropriate. The board of directors receives an annual compliance report in which any deficiencies and corresponding action plans are identified.

Corporate Governance Risk

Corporate governance risk is the risk of financial and/or reputational impairment caused by lack of effectiveness of the board of directors and senior management. Alberta Central's organizational structures, policies and controls are designed to provide effective corporate governance. Effective corporate governance is attained through the diligence of knowledgeable and competent directors and senior management. Alberta Central's processes and procedures include:

- *director qualification and competency criteria*
- *a comprehensive director orientation program*
- *ongoing director development and training*
- *regular board and committee meetings*
- *Governance Committee oversight of board governance practices*
- *an annual strategic planning process*
- *an annual board evaluation process*
- *board evaluation of senior management*
- *established performance management processes*
- *individual performance scorecards for management*
- *leadership development programs for management*
- *succession planning process for the chief executive officer (CEO) and senior management*

management's responsibility for financial reporting

Management of Credit Union Central Alberta Limited (Alberta Central) is responsible for the integrity and fair presentation of the financial information contained in this annual report. The consolidated financial statements have been prepared in accordance with IFRS and, where necessary, include amounts which are based on the best estimates and judgment of management. Financial information appearing throughout this annual report is consistent with the consolidated financial statements.

Alberta Central's accounting and related financial controls are designed, and supporting procedures maintained, to provide reasonable assurance of the timely production of reliable and accurate financial information, the promotion of operational efficiency, that assets are safeguarded against loss from unauthorized use or disposition and liabilities are recognized. These supporting procedures include the careful selection and training of qualified staff, the establishment of organizational structures providing a well-defined division of responsibilities and accountability for performance, and the communication of policies and guidelines of business conduct and risk management throughout Alberta Central. The system of internal controls is further supported by a professional staff of internal auditors who conduct periodic inspections of all major aspects of Alberta Central's operations. The internal auditors have full access to, and meet regularly with, the Audit and Finance Committee (the committee) of the board of directors to review and discuss the results of their work.

Both the federal and provincial regulators of financial institutions conduct examinations and make such enquiries into the business affairs of Alberta Central as they may deem necessary to satisfy themselves that the provisions of the appropriate legislation are being duly observed and that Alberta Central is in sound financial condition.

The committee, composed entirely of external directors, reviews the consolidated financial statements, including key management estimates and judgments material to the financial results before such consolidated financial statements are approved by the board of directors and submitted to the members of Alberta Central. The committee reviews the audit plans of the internal and external auditors, the results of their audits and management's response to any identified recommendations for improvements in internal control. The committee is also responsible for recommending the appointment of the external auditors to the board of directors.

KPMG LLP, the independent auditors, have audited the consolidated financial statements of Alberta Central in accordance with Canadian generally accepted auditing standards and have expressed their opinion in the following report to the members. The auditors have full access to, and meet periodically with, the committee both in the presence and absence of management to discuss their audit, including any findings as to the integrity of accounting, financial reporting and related matters.

Graham Wetter
President and CEO
February 22, 2013

Anne Gillespie
Chief Financial Officer

to the members of credit union central alberta limited

We have audited the accompanying consolidated financial statements of Credit Union Central Alberta Limited, which comprise the consolidated statement of financial position as at December 31, 2012, the consolidated statements of income and comprehensive income, members' equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair

presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Credit Union Central Alberta Limited as at December 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

The consolidated financial statements of Credit Union Central Alberta Limited as at and for the year ended December 31, 2011 were audited by another auditor who expressed an unmodified opinion on those financial statements on February 29, 2012.

KPMG LLP

Chartered Accountants
Calgary, Canada
February 22, 2013

CONSOLIDATED STATEMENT OF INCOME AND COMPREHENSIVE INCOME

(thousands of dollars)

	Year ended December 31	
	2012	2011
Financial income		
Interest on securities	25,806	22,958
Interest on loans	9,572	9,746
	35,378	32,704
Financial expenses		
Interest on members' deposits	20,333	18,118
Interest on loans and notes	335	266
	20,668	18,384
Net interest income	14,710	14,318
Provision for credit losses (Note 10)	(4,185)	(10,783)
Gain (loss) on sale of securities	(13)	1,130
	10,512	4,665
Operating revenues (Note 4)	23,284	22,851
Operating expenses (Note 4)	(25,652)	(23,965)
Equity loss in Cellero Solutions (Note 8)	(490)	(204)
Income before the undernoted	7,654	3,327
Increase in estimated fair value of ABC P (Note 7)	32,000	9,000
Income before income taxes	39,654	12,327
Income taxes (Note 6)		
Current income tax expense	4,886	–
Deferred income tax expense	2,852	2,546
Net income	31,916	9,781
Other comprehensive income		
Change in unrealized gains (losses) on available-for-sale securities (net of income tax of ($18); 2011 - $53)	79	(225)
Reclassification adjustments for realized gains (losses) on available-for-sale securities (net of income tax of ($5); 2011 - $16)	22	(67)
Comprehensive income	32,017	9,489

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(thousands of dollars)

	December 31	
	2012	2011
Assets		
Cash and cash equivalents (Note 20)	95,189	67,856
Securities (Note 7)	1,928,770	1,844,608
Loans (Note 10)	425,697	289,492
Derivative financial assets (Note 20)	10,805	12,161
Deferred income tax assets (Note 6)	629	3,304
Other assets (Note 11)	7,024	8,365
	2,468,114	2,226,002
Liabilities		
Members' deposits (Note 13)	2,142,415	1,840,090
Amounts payable and accrued liabilities	10,514	7,433
Loans and notes payable (Note 14)	24,983	101,369
Derivative financial liabilities (Note 20)	10,805	12,161
	2,188,717	1,961,091
Members' Equity		
Common share capital (Note 15)	199,285	193,716
Retained earnings	78,535	49,719
Accumulated other comprehensive income	1,577	1,476
	279,397	244,911
	2,468,114	2,226,002

Commitments (Note 17)

The accompanying notes are an integral part of these consolidated financial statements.

Approved on behalf of the Board of Directors

Raymond Coates
Chair of the Board

Alison Starke
Chair, Audit and Finance Committee

CONSOLIDATED STATEMENT OF MEMBERS' EQUITY

(thousands of dollars)

	Share Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total Equity
Balance at January 1, 2011	187,392	41,487	1,766	230,647
Net income	–	9,781	–	9,781
Change in gains (losses) on available-for-sale securities (net of income tax of $69)	–	–	(292)	(292)
Issue of share capital	6,324	–	–	6,324
Share capital dividends (Note 16)	–	(1,912)	–	(1,912)
Recovery of income tax on share capital dividends	–	363	–	363
Balance at December 31, 2011	193,716	49,719	1,476	244,911
Net income	–	31,916	–	31,916
Change in gains (losses) on available-for-sale securities (net of income tax of ($23))	–	–	101	101
Issue of share capital	5,579	–	–	5,579
Redemption of share capital	(10)	–	–	(10)
Share capital dividends (Note 16)	–	(3,825)	–	(3,825)
Recovery of income tax on share capital dividends	–	725	–	725
Balance at December 31, 2012	**199,285**	**78,535**	**1,577**	**279,397**

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(thousands of dollars)	Year ended December 31 2012	2011
Cash resources provided by (used in):		
Operating activities		
Net income	31,916	9,781
Adjustments for:		
Loss (gain) on sale of securities	13	(1,130)
Foreign exchange (gains) losses on cash resources	99	(788)
Depreciation and amortization	768	812
Current/deferred income tax expense	7,738	2,546
Increase in estimated fair value of ABCP	(32,000)	(9,000)
Accrued interest on impaired loans	(928)	(855)
Provision for credit losses	4,185	10,783
Interest income on securities	(25,806)	(22,958)
Interest expense on loans and notes payable	335	268
	(13,680)	(10,541)
Changes in non-cash operating components		
Accounts receivable and other assets	(113)	1,391
Accounts payable and accrued liabilities	(360)	(2,055)
Increase in members' deposits	302,319	29,726
Increase in loans	(179,462)	(66,453)
	108,704	(47,932)
Financing activities		
Increase (decrease) in loans and notes payable	(76,387)	81,373
Interest paid on loans and notes payable	(346)	(253)
Issuance of share capital, net of redemptions	5,569	6,324
Payment of share capital dividends	(3,825)	(1,912)
	(74,989)	85,532
Investing activities		
Increase in securities	(31,967)	(60,938)
Interest received on securities	25,375	22,338
Return of capital on investment in Celero	308	1,539
Acquisition of capital and intangible assets	(319)	(445)
Proceeds from sale of securities	320	1,328
	(6,283)	(36,178)
Net effect of exchange rate changes on cash resources	(99)	788
Increase in cash resources	27,333	2,210
Cash and cash equivalents, beginning of year	67,856	65,646
Cash and cash equivalents, end of year	95,189	67,856
Cash and cash equivalents consist of:		
Cash	93,225	43,978
Cheques and other items in transit	1,964	23,878
	95,189	67,856

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(thousands of dollars)

1 General Information

Credit Union Central Alberta Limited (operating as Alberta Central) is a limited liability company and is incorporated and domiciled in Canada. Alberta Central is governed by the *Credit Union Act of Alberta* and is also subject to the provisions of the *Cooperative Credit Associations Act of Canada*.

The address of its registered office is:
350N, 8500 Macleod Trail S.E.
Calgary, Alberta

Alberta Central is the liquidity and payments provider and trade association for credit unions in Alberta. Alberta Central's consolidated financial statements comprise the accounts of Alberta Central and its proportionate share of the assets, liabilities, revenue and expenses of its joint venture, Credit Union Payment Services (CUPS) (Note 9). CUPS provides payment services and related support services to the members of Alberta Central, SaskCentral and other organizations. The consolidated financial statements also comprise Alberta Central's equity share of the income (loss) of its significantly influenced associate, Celero Solutions (Celero) (Note 8). Celero provides information technology services to credit unions, its owners, Alberta Central, SaskCentral, Manitoba Central and Concentra Financial Services Association, and to other organizations. Alberta Central's 2011 financial results include its proportionate share of the revenue and expenses of the CU Electronic Transaction Services (CUETS) joint venture. CUETS was formerly a credit card processing entity with no active operations and was dissolved in December 2011.

2 Basis of Preparation

a) Statement of Compliance

Alberta Central prepares its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standard Board (IASB).

These consolidated financial statements have been approved for issue by the Board of Directors on February 22, 2013.

b) Basis of Measurement

The consolidated financial statements have been prepared under the historical cost basis except for the following:

- *held for trading financial instruments are measured at their fair value*
- *available-for-sale financial assets are measured at their fair value, except as described in Note 21, and*
- *defined benefit pension plan assets and liabilities are measured at their present value.*

c) Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also Alberta Central's functional currency.

d) Significant Estimates and Assumptions

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. Estimates and assumptions are evaluated on a continuous basis, and are based on past experiences and other factors, including expectations with regard to future events. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas of estimation uncertainty that have a significant risk of resulting in a material adjustment within the next financial year are described below:

Provision for Credit Losses

As described in Note 3(b), a loan loss provision is estimated for both specific loans that are individually significant (specific loan loss provision) as well as the collective portfolio (non-specific loan loss provision). In assessing whether specific and non-specific loan impairment exists, Alberta Central management makes estimates and assumptions as to whether there is any observable data indicating an impairment trigger and whether the loss event has an impact on the estimated future cash flows of the loan.

Furthermore, estimates and assumptions are made by management in determining the specific and non-specific loan loss provisions. To determine the specific loan loss provisions, management must make assumptions regarding the creditworthiness of individual borrowers, the timing of receipt of future cash flows (repayment from the borrowers), and estimate the net realizable value and timing of the realization of the collateral underlying the loan. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in industry and economic conditions. Refer to Note 10 for the carrying value of the allowance for credit losses.

Fair Value of Financial Instruments

The fair value of financial instruments where no active market exists, or where quoted prices are not otherwise available, is determined by using valuation techniques. In these cases, the fair value is estimated from observable data in respect of similar financial instruments or using models. Where market observable inputs are not available, they are estimated based on appropriate assumptions regarding credit risk, market liquidity and timing of future cash flows. The use of valuation techniques in calculating the fair value of Alberta Central's securities is discussed further in Note 7.

Deferred Income Taxes

In calculating deferred income taxes, Alberta Central management makes assumptions regarding timing and effective tax rates when temporary differences reverse. The calculation is also subject to uncertainty regarding the balances in various tax pools as the assessment of the corporate tax return by the Canada Revenue Agency (CRA) occurs subsequent to the issuance of the consolidated financial statements. Note 6 provides detail on the carrying value of Alberta Central's deferred income tax assets and liabilities.

3 Significant Accounting Policies

The significant accounting policies applied in the preparation of these consolidated financial statements are summarized below and have been consistently applied to all years presented. Certain comparative amounts in the consolidated statement of financial position have been reclassified to conform to the current year's presentation (Note 22).

a) Revenue Recognition

Interest income on loans is recognized on an accrual basis using the effective interest method, except for interest earned on impaired loans. The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating the interest income over the relevant period. The effective interest rate is the rate that discounts estimated future cash receipts through the expected life of the financial asset to its net carrying amount. Interest earned on securities is recognized on an accrual basis as interest income. Interest income on a financial asset, or a group of similar financial assets written down as a result of an impairment loss, is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Membership dues income is recognized on a straight-line basis over the year. Other revenue is recognized as services are provided, when the amount can be reliably measured and deemed collectible.

b) Provision for Credit Losses

Alberta Central reviews its financial assets, specifically its commercial loan and mortgage portfolio, and securities, for impairment on a quarterly and annual basis. A financial asset or group of financial assets is impaired if there is objective evidence that one or more events that occurred after the initial recognition of the asset(s) has had an impact on the estimated future cash flows of the asset(s) and the impact can be reliably estimated. Alberta Central first assesses whether objective evidence of impairment exists individually for assets that are individually significant, and collectively for assets that are not individually significant. If management determines that no objective evidence of impairment exists for an individually assessed asset, the asset is grouped with others that have similar credit risk characteristics and collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

Loans

Alberta Central maintains specific and non-specific loan loss provisions established as a result of reviews at an individual loan, and loan portfolio, level. A specific provision is established by reviewing the creditworthiness of individual borrowers and the value of the collateral underlying the loan. The specific provision is measured as the difference between the loan's carrying amount and the present value of estimated future cash flows discounted at the loan's original effective interest rate. The carrying amount of the loan is reduced through the use of an allowance account and the amount of the loss is recognized in the provision for credit losses in the consolidated statement of income and comprehensive income.

A non-specific provision is established where, in management's opinion, it is required to absorb losses inherent in the loan portfolio for which a specific provision cannot yet be determined. A non-specific provision is based on observable data such as historical credit loss experience, known portfolio risks, and current economic conditions. As credit unions are Alberta Central's syndicate partner in all commercial lending activity, the non-specific loan loss provision is determined by reviewing historical trends in delinquency rates and loan provisioning levels at credit unions as well as management's assessment of the impact of recent events and changes in economic conditions. Delinquency rates are regularly benchmarked against actual outcomes to ensure that management's assumptions regarding delinquency remain appropriate. The non-specific loan loss provision is recognized through the use of an allowance account and is recognized in the provision for credit losses in the consolidated statement of income and comprehensive income.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the loan or allowance. The amount of the reversal is recognized in the provision for credit losses on the consolidated statement of income and comprehensive income. Alberta Central writes off amounts charged to the allowance account against the carrying amount of an impaired loan when all collateral has been liquidated and no future cash flows are expected.

Securities

Alberta Central periodically assesses impairment of all of its securities, except those classified as held for trading. Management considers significant financial difficulty of the issuer, the disappearance of an active market for a security due to financial difficulties, or a significant or prolonged decline in the fair value of an available-for-sale equity security below its cost as objective evidence of impairment resulting in the recognition of an impairment loss. For securities measured at amortized cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the security's original effective interest rate. For securities measured at cost, the amount of the loss is measured as the difference between the security's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar security. For securities classified as available-for-sale, the amount of the cumulative loss in fair value recognized in accumulated other comprehensive income and reclassified to net income is the difference between the security's acquisition cost and current fair value, less any previously recognized impairment.

Impairment losses can only be reversed on securities measured at amortized cost and debt securities classified as available-for-sale, and only when the decrease in impairment loss can be related objectively to an event occurring after the impairment was recognized. The amount of the reversal is recognized in net income.

c) Personnel

Short-term Employee Benefits

Short-term employee benefits include all benefits and payments made on behalf of Alberta Central personnel including wages, salaries, vacation, medical and dental benefits and short-term incentive compensation, and are expensed as the related service is provided. A liability is recognized for the amount expected to be paid under short-term incentive plans provided Alberta Central has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be reliably estimated.

Post-employment Benefits

Alberta Central's post-employment benefit program consists of both a defined contribution and defined benefit pension plan.

a) Defined Contribution Pension Plan

Alberta Central contributes annually to a defined contribution pension plan for employees. A defined contribution plan is a pension plan under which Alberta Central pays fixed contributions to a third party and has no legal or constructive obligation to pay further amounts. The contributions are recognized as personnel expense when they are due in respect of service rendered to the end of the reporting period.

b) Defined Benefit Pension Plan

The defined benefit pension plan is a pension plan for certain executive management. A defined benefit pension plan defines an amount of pension benefit that an executive will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The amount of the defined benefit asset or liability recognized in the consolidated statement of financial position is equal to the present value of the defined benefit obligation as at the year-end reduced by the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in Canadian dollars, and that have terms to maturity approximating the terms of the related pension asset or liability. Actuarial gains (losses) are recognized in the consolidated statement of income and comprehensive income in the year in which they occur.

Long-term Employee Benefits

Alberta Central's obligation under a long-term incentive plan for executive management is accrued as services are rendered.

d) Income Taxes

Income tax expense comprises both current and deferred income tax.

Current Income Tax

Current income tax is the expected tax payable (receivable) on the taxable income (loss) for the year. It is calculated on the basis of the applicable tax law in Alberta using rates enacted or substantially enacted at year-end. Current income tax is recognized as an expense (recovery) in the consolidated statement of income and comprehensive income except to the extent it relates to items that are charged (credited) in other comprehensive income or directly to equity. In such circumstances, it is charged (credited) to other comprehensive income or equity.

If Alberta Central has tax losses during the year that may be offset against a tax liability for a previous year, these losses are recognized as an asset and a reduction of income tax expense. Where tax losses can be carried forward against taxable income of future years, a deductible temporary difference arises. Those losses offset deferred tax liabilities recognized in the consolidated statement of financial position.

Deferred Income Tax

Alberta Central follows the asset and liability method of accounting for deferred income taxes. Under this method, deferred tax assets and liabilities are recognized on temporary differences arising between the financial statement carrying amounts of assets and liabilities and their respective tax bases. The deferred tax assets and liabilities are calculated using enacted or substantively enacted tax rates that are expected to be in effect when the differences are expected to reverse.

Deferred tax assets are recognized when it is probable that future taxable income will be available against which these temporary differences can be utilized. Any changes in deferred tax assets or liabilities during the year are reflected in income tax expense on the consolidated statement of income and comprehensive income unless they relate to items that are recognized in other comprehensive income or accumulated other comprehensive income.

Deferred tax related to fair value re-measurement of available-for-sale investments, which is recognized in other comprehensive income, is also recognized in other comprehensive income and subsequently in the consolidated statement of income and comprehensive income together with the deferred gain (loss).

e) Foreign Currency Translation

Transactions denominated in a foreign currency are translated into Canadian dollars using exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in a foreign currency are translated into Canadian dollars using the closing rate as at the reporting date. Foreign currency differences arising on translation of foreign currency transactions and monetary items are recognized in income.

f) Cash and Cash Equivalents

Cash and cash equivalents consist of cash and items in transit. It also includes restricted cash pledged as described in Note 20.

g) Investment in Celero

Alberta Central uses the equity method to account for Celero over which it exercises significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies. Under this method, the investment is initially recognized at cost and is adjusted for Alberta Central's share of income (loss) and distributions received from the investee. The investment is written down to recognize losses, if any, in its value. Alberta Central assesses impairment of its investment in Celero on an annual basis and losses, if any, are recognized in the consolidated statement of income and comprehensive income.

When Alberta Central's share of losses in Celero equals or exceeds its interest in the investment, including any other unsecured receivables, Alberta Central does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the investment.

For preparation of the consolidated financial statements, consistent accounting policies for comparable transactions and events in similar circumstances are used. Financial information for Celero is included in Note 8.

h) Investment in Joint Ventures

Alberta Central uses the proportionate consolidation method to account for its investments in jointly controlled entities. A jointly controlled entity is a joint venture that involves formation of a separate entity and creation of a contractual arrangement between the venturers to establish joint control over the economic activity of the entity. Under this method, Alberta Central's proportionate share of the joint venture's assets, liabilities, revenue and expenses is combined with similar items, line by line, in its consolidated financial statements.

Intercompany gains on transactions between Alberta Central and the joint venture are eliminated to the extent of Alberta Central's interest in the joint venture. Intercompany losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Financial information for Alberta Central's joint venture, CUFS, and former joint venture, CUETS, is included in Note 9.

i) Capital Assets

Capital assets are recognized at historical cost less accumulated depreciation. Historical cost includes expenditures that are directly attributable to the acquisition of the asset. Depreciation is calculated using the straight-line method over the following estimated useful lives:

Computer hardware	3 years
Equipment	3 years
Furniture	10 years
Leasehold improvements	Term of the lease to 2021

Depreciation commences on computer hardware and equipment once the assets are placed into use. The residual values and useful lives of the capital assets are reviewed, reassessed and adjusted, if appropriate, each reporting period.

Capital assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

j) Intangible Assets

Intangible assets consist of acquired operating software assets recognized at historical cost and amortized using the straight-line method over their estimated useful economic lives ranging from three to five years.

Intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. An asset is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use. Fair value is estimated based on recent transactions for similar assets within the same industry. Value in use is estimated based on discounted net cash flows from the continuing use and ultimate disposal of an asset.

k) Share Capital Dividends

Dividends on Alberta Central's member shares are recognized in equity in the period in which they are declared by Alberta Central's Board of Directors.

l) Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases, net of any incentives received from the lessor, are charged to the consolidated statement of income and comprehensive income on a straight-line basis over the period of the lease.

m) Financial Assets and Liabilities

All financial assets are classified as held for trading, available-for-sale, held to maturity or loans and receivables. All financial liabilities are classified as held for trading or other financial liabilities. Management determines the classification of its instruments at initial recognition. Financial assets and liabilities are recognized when Alberta Central becomes a party to the contractual provisions of the instrument. Alberta Central uses settlement date accounting for regular-way trades, which are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

Held for Trading

A financial asset or liability must be classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit taking. Derivative instruments must be classified as held for trading and measured at fair value unless they are designated as an effective hedging instrument. Alberta Central has no derivatives designated as accounting hedges. Alberta Central may designate any financial asset or liability as held for trading if certain specified conditions are met.

Alberta Central has classified cash and cash equivalents, certain securities, derivative financial assets and derivative financial liabilities as held for trading. Certain securities have been designated as held for trading as Alberta Central manages and evaluates the performance of these securities together on a fair value basis, and information about the group of securities is provided internally on that basis to key management. All financial assets and liabilities classified as held for trading are initially and subsequently measured at fair value with gains (losses) recognized in net income. Any interest earned or incurred is recognized on an accrual basis as interest income or expense.

Available-for-Sale

Available-for-sale financial assets are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. Alberta Central has classified certain securities as available-for-sale.

Financial assets classified as available-for-sale are initially and subsequently measured at fair value with unrealized gains (losses) recognized in other comprehensive income, except for impairment losses, which are recognized in net income. Equity securities classified as available-for-sale which do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recorded at cost. Their fair value cannot be reliably measured when the variability in the range of reasonable fair value estimates is significant and the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value. Changes in fair value are recorded in accumulated other comprehensive income in the consolidated statement of financial position. When unrealized gains (losses) become realized through sale or impairment, they are reclassified from accumulated other comprehensive income to net income. Any interest earned is recognized on an accrual basis as interest income.

Held to Maturity

Held to maturity financial assets are those with fixed or determinable payments and fixed maturities that management has the positive intention and ability to hold to maturity. If Alberta Central were to sell other than an insignificant amount of held to maturity assets, the entire category would be reclassified as available-for-sale.

As at December 31, 2012, Alberta Central has classified certain securities as held to maturity.

Held to maturity financial assets are initially measured at fair value and subsequently measured at amortized cost using the effective interest method. Any interest earned is recognized on an accrual basis as interest income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than those that Alberta Central intends to sell immediately or in the short term, or those designated as available-for-sale. Alberta Central has classified its accounts receivable, certain securities and loans as loans and receivables.

Loans and receivables are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Any interest earned is recognized on an accrual basis as interest income.

Other Financial Liabilities

Financial liabilities that do not fall under the held for trading category are classified as other financial liabilities. Alberta Central has classified its accounts payable and accrued liabilities, members' deposits, and loans and notes payable as other financial liabilities.

Other financial liabilities are initially recognized at fair value and subsequently measured at amortized cost using the effective interest method. Any interest incurred is recognized on an accrual basis as interest expense.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income is included on the consolidated statement of financial position as a separate component of members' equity and includes unrealized gains (losses) on available-for-sale securities.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract that have features similar to a derivative. Embedded derivatives must be separated from the host instrument and accounted for separately if the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host instrument and the host instrument is not already measured at fair value with changes in fair value recognized in net income. Where Alberta Central is required to separate an embedded derivative from its host instrument but is unable to measure the fair value of the embedded derivative separately, the entire instrument is treated as a held for trading financial instrument measured at fair value with changes in fair value measured in net income.

Transaction Costs

Transaction costs are expensed as incurred for financial instruments classified or designated as held for trading and are capitalized upon initial recognition for all other financial instruments.

Determination of Fair Value

For financial instruments traded in an active market, fair value is determined by reference to quoted market prices or dealer price quotations. A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available and those prices represent actual and regularly occurring market transactions on an arm's length basis. Where independent quoted market prices are not available, fair value is determined by reference to recent arm's length market transactions for similar instruments, the current fair value of other instruments having substantially the same terms, conditions and risk characteristics or through the use of other valuation techniques.

With the use of valuation techniques, fair value is estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs existing at the date of the consolidated statement of financial position. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

Alberta Central uses valuation techniques primarily to value its derivatives, certain unquoted equity investments and certain other financial instruments for which markets were or have become illiquid.

Derecognition

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or substantially all the risks and rewards of ownership of the assets have been transferred. Financial liabilities are derecognized when the obligation has been discharged, cancelled or expired.

n) Standards and Interpretations Issued but Not Yet Effective

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2013 and have not been applied in preparing these consolidated financial statements. Those that may be relevant to Alberta Central are set out below. Alberta Central does not expect a material impact to its consolidated financial statements from the adoption of each of these standards, unless otherwise stated. Alberta Central does not plan to adopt these standards early.

IAS 1 "Presentation of Financial Statements"

The IASB amended this standard to require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to net income in the future. This amended standard is effective for financial years beginning on or after July 1, 2012.

IAS 19 "Employee Benefits"

The IASB amended this standard to eliminate the option to defer the recognition of actuarial gains (losses), commonly known as the corridor approach, and to require that these gains (losses) be recognized in other comprehensive income immediately. In addition, the net change in the defined benefit liability or asset must be disaggregated into three components: service cost, net interest and remeasurements. Service cost is required to be presented in net income and net interest cost is required to be presented as part of finance costs in net income. Remeasurements, which include changes in estimates or the valuation of plan assets, will now be recognized only in other comprehensive income. The amended standard also includes enhanced disclosure requirements around the characteristics of defined benefit plans and the risks that an entity is exposed to through participation in such plans. The impact to Alberta Central from adopting these amendments includes a change in recognition of actuarial gains (losses) and remeasurements from net income to other comprehensive income and enhanced disclosures. This amended standard is effective for financial years beginning on or after January 1, 2013.

IFRS 9 "Financial Instruments"

This new standard is the result of the first phase of the IASB's project to replace IAS 39 "Financial instruments: recognition and measurement". The new standard has exchanged the current multiple classification categories with only two categories: amortized cost and fair value. Furthermore, the measurement model for equity instruments has changed to require that all equity instruments be measured at fair value.

Portions of this standard relating to impairment and hedge accounting remain in development and the full impact of the standard on Alberta Central's consolidated financial statements will be unknown until the full completion of the project. Alberta Central is currently assessing the expected impact of this standard. This new standard is effective for financial years beginning on or after January 1, 2015.

IFRS 11 "Joint Arrangements"

IFRS 11 replaces IAS 31 "Interests in joint ventures" and SIC-13 "Jointly controlled entities – non-monetary contributions by venturers". This new standard replaces the current three types of joint arrangements into two: joint operations and joint ventures. Joint ventures will be required to be accounted for using the equity method whereas joint operations will be accounted for using proportionate consolidation. This new standard is effective for financial years beginning on or after January 1, 2013.

IAS 28 "Investments in Associates and Joint Ventures"

This standard continues to prescribe accounting requirements for investments in associated entities; however, it has been revised to include requirements for the application of the equity method when accounting for investments in joint ventures. This amended standard is effective for financial years beginning on or after January 1, 2013.

IFRS 12 "Disclosure of Interests in Other Entities"

This new standard establishes disclosure requirements for interest in other entities, such as joint arrangements, associates, special purpose vehicles and off-balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interest in other entities. This new standard is effective for financial years beginning on or after January 1, 2013.

IFRS 13 "Fair Value Measurement"

IFRS 13 is a complete standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. This new standard is effective for financial years beginning on or after January 1, 2013.

4 Operating Revenues and Operating Expenses

	2012	2011
Operating revenues		
Financial services	12,861	13,298
Member dues	5,862	4,990
Other	4,561	4,563
	23,284	22,851
Operating expenses		
Personnel	12,013	11,381
Property and equipment	4,803	4,397
Administration and other	5,861	5,863
Organization	2,975	2,354
	25,652	23,985

Included within financial services income is $710 (2011 – $655) of foreign exchange gains.

Personnel expenses consist of the following:

	2012	2011
Salaries and other short-term employee benefits	10,428	10,002
Post-employment benefits	1,200	833
Long-term employee benefits	250	462
Termination benefits and retiring allowances	135	84
	12,013	11,381

5 Personnel

a) Defined Contribution Pension Plan

Alberta Central contributes annually to a defined contribution pension plan for employees. The annual pension expense of $448 (2011 – $414) is included in personnel expense in operating expenses in the consolidated statement of income and comprehensive income.

b) Defined Benefit Pension Plan

Alberta Central also contributes annually to a defined benefit pension plan for certain executive management which qualifies as a retirement compensation arrangement under the *Income Tax Act*. This plan is fully funded by Alberta Central. Concentra Trust is the trustee and custodian of the plan. An actuarial valuation of the defined benefit obligation was performed as of December 31, 2012.

The principal actuarial assumptions used are as follows:

	2012	2011
Discount rate	4.3%	5.3%
Expected return on plan assets	3.0%	3.0%
Future salary increases	5.0%	5.0%

Plan assets are limited to Government of Canada securities and cash. The overall expected rate of return on assets is determined by considering the expected returns available on high quality corporate bonds with cash flows that match the timing and amount of expected benefit payments.

The movement in the fair value of plan assets and defined benefit obligation over the year is as follows:

	2012	2011
Fair value of plan assets, beginning of year	4,672	3,820
Expected return on plan assets	81	63
Actuarial losses	(61)	(48)
Employer contributions	877	934
Benefits paid	(136)	(97)
Fair value of plan assets, end of year	5,433	4,672
Defined benefit obligation, beginning of year	3,431	3,097
Current service cost	180	193
Interest cost	200	178
Actuarial losses	582	60
Benefits paid	(136)	(97)
Defined benefit obligation, end of year	4,257	3,431
Pension surplus (Note 11)	1,176	1,241

The amounts recognized in the consolidated statement of income and comprehensive income are as follows:

	2012	2011
Current service cost	180	193
Interest cost	200	178
Expected return on plan assets	(81)	(63)
Net actuarial losses	643	108
	942	416

Alberta Central expects to contribute $164 to the defined benefit plan next year.

6 Income Taxes

The combined federal and provincial substantively enacted income tax rate applicable to Alberta Central is 18.8 percent (2011 – 19.0 percent). Income taxes calculated at substantively enacted rates differ from the provision included in the consolidated statement of income and comprehensive income for the following reasons:

	2012	2011
Income taxes at substantively enacted rates	7,472	2,337
Increase (decrease) in income taxes resulting from:		
Non-deductible amounts	41	37
Impact of rate changes on temporary differences	22	60
Other	203	112
Provision for income taxes	7,738	2,546

The deferred income tax asset is attributable to the following:

	2012	2011
Deferred income tax asset:		
Depreciation and amortization	325	2,234
Charges for non-specific loan impairment	338	303
Loss carry-forwards	–	1,020
Other	185	185
	848	3,742
Deferred income tax liability:		
Post-employment benefits	(219)	(229)
Available-for-sale financial assets	–	(9)
	(219)	(238)
Net deferred income tax asset	629	3,504

The deferred income tax expense included in the consolidated statement of income and comprehensive income comprises the following temporary differences:

	2012	2011
Depreciation and amortization	1,798	(144)
Charges for non-specific loan impairment	(35)	(74)
Loss carry-forwards	1,020	3,529
Post-employment benefits	(10)	60
Available-for-sale financial assets	(32)	(69)
CUETS deferred revenue	–	(654)
Other	111	(102)
Deferred income tax expense	2,852	2,546

7 Securities

	Classification	2012	2011
Government	Held for trading	35,027	35,183
	Available-for-sale	128,743	93,609
		163,770	128,792
Corporate	Held for trading	207,520	199,478
	Available-for-sale	1,525,654	1,524,942
	Held to maturity	19,898	–
		1,753,072	1,724,420
Credit Union Central of Canada (CUCC)	Available-for-sale	649	649
Central 1 subordinated debt	Loans and receivables	6,000	6,000
Mortgage pooling funds	Loans and receivables	204	99
		1,923,695	1,859,960
Totals	Held for trading	242,547	234,661
	Available-for-sale	1,655,046	1,625,200
	Held to maturity	19,898	–
	Loans and receivables	6,204	99
		1,923,695	1,859,960
Accrued interest receivable		5,075	4,644
		1,928,770	1,864,604

At December 31, 2012, $219,894 (2011 – $224,317) of securities were pledged to the Bank of Canada under the terms of the *Credit Union System Group Clearing Agreement* (Note 14) and are restricted from Alberta Central's use.

Alberta Central's mortgage pooling funds represent an investment in Canadian-based residential mortgages. All mortgages in the pool are Canada Mortgage and Housing Corporation (CMHC) insured mortgages. The mortgages were acquired by Alberta Central with the following amortization periods: 22.7% – 15-19 years; 15.8% – 25-29 years; and 61.5% – 30-34 years. As all mortgages within the mortgage pool are insured, an economic downturn would have a limited impact on the carrying value of the mortgage pool.

At December 31, 2012, Alberta Central held non-bank and bank sponsored asset-backed commercial paper (ABCP) with a total face value of $197,550 (2011 – $204,564) as outlined in the table below.

	Face Value Received Upon Restructuring	Sold, Discharged or Principal Repaid	Face Value at December 31, 2012	Face Value at December 31, 2011
Non-bank sponsored ABCP				
MAV 2 notes:				
Class A-1	98,577	(316)	98,261	98,261
Class A-2	56,334	–	56,334	56,334
Class B	10,226	–	10,226	10,226
Class C	5,107	(5,107)	–	–
Tracking notes	9,953	(7,462)	2,491	6,715
	180,197	(12,885)	167,312	171,536
MAV 3 tracking notes:				
Traditional asset				
Rated	27,482	(26,803)	679	1,920
Unrated	7,434	(5,167)	2,267	3,458
Ineligible asset	6,979	(2,480)	4,499	4,857
	41,895	(34,450)	7,445	10,235
Non-bank sponsored ABCP	222,092	(47,335)	174,757	181,771
Bank sponsored ABCP				
Rated	3,204	–	13,204	13,204
Unrated	9,589	–	9,589	9,589
Bank sponsored ABCP	22,793	–	22,793	22,793
Total ABCP	244,885	(47,335)	197,550	204,564
Face value at December 31			197,550	204,564
Accrued interest			2,545	2,567
Cumulative fair value adjustment at December 31			(42,335)	(78,529)
Fair value at December 31			157,760	128,602

All of the ABCP investments have been designated as held for trading financial assets and are carried at fair value as Alberta Central manages and evaluates performance of the group of ABCP investments together on a fair value basis.

Until June 2012, Alberta Central estimated the fair value of these assets using a discounted cash flow valuation model incorporating management's best estimates of credit risk attributable to underlying assets, market interest rates and other factors that a market participant would consider for such investments. The discount rates underlying the cash flow valuation were based on appropriate forward credit indices, adjusted for estimated premiums to reflect the expected lack of liquidity in the paper. Note coupon rates and maturities were

based on the anticipated terms of the paper. In management's view, an active market developed during the year for the more significant classes of notes in bank and non-bank sponsored ABCP. Effective June 2012, bid pricing has been used to determine the fair value of these assets. Based on the above-noted valuation methods, Alberta Central recorded an increase in the estimated fair value of ABCP of $32,000 (2011 – $9,000) in the consolidated statement of income and comprehensive income.

At the dates of acquisition, the ABCP notes were short-term investments rated R1 (high) by DBRS, the highest credit rating issued for commercial paper. As a result of the general credit crisis that occurred in 2007 and 2008, they were restructured into longer-term floating-rate notes reflecting the maturity of the related underlying assets as outlined in the following table:

	Expected Maturity	DBRS Rating	Coupon Rate
MAV 2			
Class A-1	2017	AA (low)	Bankers' acceptance minus 50 basis points
Class A-2	2017	BBB (high)	Bankers' acceptance minus 50 basis points
Class B	2017	Unrated	Bankers' acceptance minus 50 basis points, payable after principal and interest has been paid on Class A-1 and A-2
Class C	2017	Unrated	Bankers' acceptance plus 20 percent, payable after principal and interest has been paid on Class A-1, A-2 and B
Tracking notes for ineligible assets	2056	Unrated	Floating
MAV 3			
Tracking notes for traditional assets	2017	Unrated to AAA	Floating
Tracking notes for ineligible assets	2017	Unrated	Floating
Bank ABCP			
Rated	2016	A (low)	Bankers' acceptance plus 35 basis points
Unrated	2013 to 2016	Unrated	Bankers' acceptance

[1] Payable quarterly.

[2] Coupon rate floats based on portion of underlying assets, net of expenses.

The MAV 2 notes are backed by synthetic collateralized debt obligations or a combination of traditional assets and synthetic collateralized debt obligations. The notes have levels of subordination relative to potential losses and principal and interest payments. MAV 2 also contains tracking notes for ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Certain MAV 3 notes are backed solely by traditional assets while other MAV 3 notes are backed by ineligible assets (US sub-prime assets or home equity loans that may be subject to significant risk of suffering losses).

Holdings of MAV 2 Class 4 and 5 ABCP with a face value of $3,877 and $255, respectively, were discharged in May and June 2012 for $nil proceeds as there was no remaining collateral on the notes. The notes had a fair value of $nil and therefore, the discharge did not result in any gain or loss.

During the year, Alberta Central received principal payments of $2,488 (2011 – $2,757) and earned interest of $1,645 (2011 – $1,711) on ABCP. On June 27, 2012, DBRS upgraded the MAV 2 Class A-1 notes to AA (low) from A (high). The MAV 2 Class A 2 notes were also confirmed at BBB (high).

Alberta Central holds two bank-sponsored ABCP notes, Superior Trust and Apex Trust. These notes have an exposure to commercial mortgages and leveraged super senior tranches of mortgage-backed securities. On January 18, 2013, DBRS assigned a rating of A (low) to the Apex Trust Series A-2013 notes and BBB to Apex Trust Series A-2016 notes.

8 Investment in Celero

Alberta Central has a 31.4 percent interest in Celero (Note 11). While Celero is legally structured as a joint venture, it does not qualify as such for accounting purposes as Alberta Central does not have joint control. Accordingly, Alberta Central accounts for its investment in Celero using the equity method. Under the terms of the *Joint Venture Agreement* and as directed by Celero's Management Committee, the net income (loss) of Celero is distributed to (contributed by) Alberta Central in proportion to its ownership interest in Celero.

During 2012, Alberta Central received $308 from Celero as a return of capital (2011 – $1,539).

Summarized financial information of Celero is as follows:

	2012	2011
Assets	37,748	41,354
Liabilities	31,302	31,918
Revenue	79,971	80,515
Income (loss) before equity income (loss) in Evolink	(1,951)	162
Net loss and comprehensive loss	(1,848)	(1,150)

Alberta Central is liable in proportion to its ownership interest in Celero, for all of Celero's covenants and obligations.

9 Investment in Joint Ventures

During the year, Alberta Central had a 50 percent interest in the CUPS joint venture. As discussed in Note 1, the CUETS joint venture was dissolved in December 2011. Therefore, CUETS amounts are only included in the 2011 statement of income and comprehensive income based on Alberta Central's 50 percent interest in the joint venture at that time. Alberta Central's proportionate share of its investment in the joint ventures before inter-entity eliminations is summarized below:

	2012	2011
Statement of financial position		
Current assets	1,664	1,876
Other assets	260	311
Total assets	1,924	2,187
Current liabilities	644	968
Equity	1,280	1,219
Total liabilities	1,924	2,187
Statement of income and comprehensive income		
Operating revenue	9,888	10,121
Operating expenses	(8,608)	(8,655)
Net income	1,280	1,466

10 Loans

	2012	2011
Credit unions	248,610	67,500
Cooperatives	2,481	2,936
Commercial loans and mortgages	181,576	181,908
Celero (Note 8)	5,710	6,044
Employee mortgages	1,935	2,375
	440,312	260,862
Accrued interest receivable	3,337	3,397
	443,649	264,259
Less: Allowances on commercial loans and mortgages:		
Specific	(16,522)	(12,167)
Non-specific	(1,430)	(1,600)
	425,697	249,492

Alberta Central's commercial loans and mortgages portfolio includes $24,355 (2011 – $15,324) in non-performing loans. The following is a reconciliation of the allowance on commercial loans and mortgages:

	2012	2011
Balance, beginning of the year	13,767	2,984
Increase in specific loan loss provision	4,355	10,383
Increase (decrease) in non-specific loan loss provision	(170)	400
Balance, end of the year	17,952	13,767

Included in accrued interest receivable is $2,674 (2011 – $1,746) of interest income on impaired loans.

Employee mortgages are Alberta-based primary residence mortgages. All mortgages were originated (not acquired) by Alberta Central with an amortization period of 25 years. Canada Mortgage and Housing Corporation (CMHC) insured mortgages comprise $215 and 11.1 percent of employee mortgages. The average loan-to-value ratio for newly originated uninsured employee mortgages during 2012 is 55.2 percent. As employee mortgages do not exceed a loan to value ratio of 80 percent at origination of the mortgage, an economic downturn would have a limited impact on the carrying value of employee mortgages.

11 Other Assets

	2012	2011
Accounts receivable and prepaid expenses	1,964	1,786
Pension surplus (Note 9)	1,176	1,241
Investment in Cidera – equity method (Note 6)	2,135	3,142
Capital and intangible assets (Note 12)	1,749	2,196
	7,024	8,365

12 Capital and Intangible Assets

	Equipment	Leasehold Improvements	Furniture	Operating Software	Total
At December 31, 2011					
Cost	4,443	5,712	3,131	5,627	18,913
Accumulated depreciation/amortization	(4,333)	(5,113)	(2,756)	(4,525)	(16,727)
Net book value	110	599	381	1,102	2,196
At December 31, 2012					
Cost	3,323	5,795	2,772	5,294	17,184
Accumulated depreciation/amortization	(3,164)	(5,207)	(2,489)	(4,575)	(15,435)
Net book value	159	588	283	719	1,749

Depreciation/amortization expense of $768 (2011 – $812) is included in property and equipment expense within operating expenses in the consolidated statement of income and comprehensive income (Note 4).

13 Members' Deposits

	2012	2011
Current accounts and demand deposits	129,861	199,394
Money market deposits	524,851	337,821
Statutory liquidity deposits	1,484,925	1,339,560
	2,139,637	1,876,775
Accrued interest payable	3,778	3,121
	2,142,415	1,879,896

Alberta credit unions are required by Alberta Central's bylaws to maintain nine percent of their liabilities in statutory liquidity deposits and common share capital of Alberta Central.

14 Loans and Notes Payable

	2012	2011
Commercial paper	24,983	24,997
Line of credit	—	76,384
	24,983	101,381

Effective July 6, 2011, Alberta Central entered into an agreement with Central 1 for a line of credit to a maximum of $120,000. Pursuant to the terms of the Credit Union System Group Clearing Agreement (Note 20), Alberta Central is obliged to pledge securities to the Bank of Canada with a Bank of Canada collateral value at least equal to one percent of Alberta credit union system assets to secure the line of credit (Note 7). Amounts are due on demand and bear interest at the Bank of Canada overnight rate, or such other rate charged by the Bank of Canada, for Canadian dollar advances. For US dollar advances, amounts bear interest at the rate charged to Central 1 by the correspondent US bank. The total interest paid on the line of credit during the year was $44 (2011 – $29).

Alberta Central is authorized to issue commercial paper to a maximum of $250,000 (2011 – $250,000). Amounts bear interest at a weighted average rate of 1.22 percent (2011 – 1.16 percent) and have a weighted average term of 38 days (2011 – 36 days).

15 Common Share Capital

Authorized:

Common shares held by Class A voting members – unlimited number at $5 dollars per share

Common shares held by Class B non-voting members – unlimited number at $5 dollars per share

Issued and Outstanding:

Common shares held by Class A voting members – 39,440,668 shares (2011 – 38,325,237)

Common shares held by Class B non-voting members – 416,238 shares (2011 – 418,278)

Common shares are held by Alberta credit unions (Class A members) and other non-credit union organizations (Class B members).

	2012	2011
Common shares held by Class A members:		
Balance, beginning of year	191,626	185,301
Issued	5,579	6,325
Balance, end of year	197,205	191,626
Common shares held by Class B members:		
Balance, beginning of year	2,091	2,091
Redeemed, at par	(10)	
Balance, end of year	2,081	2,091
Total common shares	199,285	193,716

Alberta Central's bylaws require member credit unions to maintain common share capital in Alberta Central in an amount equal to one percent of each credit union's assets as at the end of the credit union's most recent fiscal year.

Alberta Central's bylaws require that Class B members maintain common shares in Alberta Central, the total par value of which is not less than $100 dollars.

All requests for redemption of common share capital require approval from Alberta Central's Board of Directors. The redemption price of all common shares is their par value of $5 dollars per share.

16 Share Capital Dividends

Share capital dividends of $3,875 (2011 – $1,912) were calculated using members' minimum monthly common share capital account balances and the average monthly Canadian prime business rate less one percent (2011 – average monthly Canadian prime business rate less two percent). Both Class A and B members are eligible to participate in the receipt of dividends from Alberta Central. All dividends require approval from Alberta Central's Board of Directors.

17 Commitments

Alberta Central has entered into a ten year non-cancellable premises lease agreement ending December 31, 2021 which provides a renewal option for a further five years on the same terms and conditions. The future minimum lease payments for base rent under the non-cancellable operating lease are as follows:

One year or less (2013)	1,542
Later than one year and no later than five years (2014-2017)	6,457
Later than five years (2018 and thereafter)	6,916
Total future obligations under premises operating lease to 2021	14,915

Alberta Central's lease payments are recognized as an expense in the year within property and equipment expenses in operating expenses on the consolidated statement of income and comprehensive income (Note 4).

	2012	2011
Minimum lease payments	1,575	1,548
Contingent rent	1,559	1,226
Total	3,134	2,774

Contingent rent payments on the premises lease are based on a pro rata share of the operating costs of the lease premises, which may increase or decrease annually.

Alberta Central has a ten year non-cancellable premises sublease agreement with Celero ending December 31, 2021 for future minimum lease receipts for base rent totaling $4,570 (2011 – $5,039).

18 Related Party Transactions

Alberta Central has transactions with various related parties throughout the normal course of business. These transactions are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

a) Transactions with a Joint Venture

During the year, Alberta Central charged CUPS various administrative, property rental, interest and float fees totaling $3,443 (2011 – $3,400). During the year, CUPS charged Alberta Central various interest, distribution and administrative fees totaling $518 (2011 – $489).

CUPS has a line of credit at Alberta Central to a maximum of $10,000, which bears interest at the Canadian prime business rate. At December 31, 2012, CUPS had drawn $nil (2011 – $nil) on the line of credit.

b) Transactions with Celero

During the year, Alberta Central charged Celero $2,772 (2011 – $2,721) for various administrative and facilities services. Celero charged Alberta Central $1,052 (2011 – $1,453) for information technology services. At December 31, 2012, Alberta Central had a net receivable of $94 from Celero (2011 – a net payable of $284) in respect of operating activities.

Under a *Joint Venture Lender Agreement* dated December 17, 2007, Celero has a line of credit facility with Alberta Central to a maximum of $22,500 with interest payable monthly at the Canadian prime business rate. The line of credit is payable based on total available cash flow within Celero. Under the terms of the same agreement, Celero also has a $5,000 overdraft facility with Alberta Central bearing interest at the Canadian prime business rate. Alberta Central is the lead lender of the above-noted loan facilities; however, SaskCentral and Manitoba Central, as joint venture partners, share in the provision and repayment of funds for these facilities in proportion to their ownership interest. At December 31, 2012, Celero had drawn $1,200 (2011 – $2,200) on the line of credit facility and $nil (2011 – $nil) on the overdraft facility. The facilities are secured by a *General Security Agreement* over all assets of Celero.

Everlink has entered into agreements with Alberta Central, consisting of a line of credit to a maximum of $2,000 and authorized overdraft facilities to a maximum of $6,375 and US$100. Celero has provided a guarantee on these agreements in proportion to its 49 percent shareholding in Everlink. At December 31, 2012, there were no draws (2011 – no draws) against the line of credit or the authorized overdraft facility.

c) Transactions with Servus

As of December 31, 2012, Servus Credit Union Ltd. (Servus) owned 56.4 percent (2011 – 55.3 percent) of the total outstanding common share capital of Alberta Central. Due to the governance structure of Alberta Central, management has determined that Servus has significant influence, but not control, over Alberta Central. The outstanding balances with Servus included in Alberta Central's consolidated statements of financial position and consolidated statement of income and comprehensive income are as follows:

	2012	2011
Loans	243,274	67,356
Members' deposits	885,893	756,156
Membership share rebate accrual, included in accounts payable and accrued liabilities	218	580
Common share capital	112,359	107,699
Interest income on loans	453	278
Interest expense on members' deposits	8,696	8,156
Membership fees and other income	3,948	3,741
Share dividends	2,115	1,056

d) Transactions with Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of Alberta Central and its proportionate interest in the CUP's joint venture. Key management is comprised of Alberta Central's executive management and assistant vice presidents (12.5 positions; 2011 – 11.5 positions). Their aggregate compensation for the year included:

	2012	2011
Salaries and other short-term employee benefits	2,766	2,256
Post-employment benefits	547	436
Long-term employee benefits	250	462
Termination benefits and retiring allowances	–	57
	3,563	3,211

Mortgage loans to key management personnel bear interest at rates ranging from 1.0 percent to 1.54 percent (2011 – 1.0 percent to 3.0 percent) and are secured by property of the respective borrowers. No impairment losses have been recorded against balances during the period with key management personnel, and no specific allowance has been made for impairment losses on balances with key management personnel at year-end. The table below presents the outstanding balances and transactions with key management personnel related to mortgage loans:

	2012	2011
Balance, beginning of year	1,072	1,408
Advances	480	320
Repayments	(524)	(656)
Balance, end of year	**1,028**	**1,072**

e) Transactions with Directors

	2012	2011
Remuneration paid to directors	238	101
Expenses paid on behalf of directors	125	112
	363	213

Directors are entitled to receive remuneration for participating in Alberta Central and affiliate organization related business. Remuneration to directors ranges from $9 to $45 (2011 – $1 to $24), with an average of $18 (2011 – $8) per annum. The director remuneration policy in effect for 2012 has changed from the prior year with respect to the rate for honorariums and meeting allowances.

19 Capital Management

Alberta Central's objectives when managing capital are:

- to comply with the capital requirements set by its regulators
- to maintain a strong capital base to support the continued growth and changing circumstances of the credit union system through the development of Alberta Central's business
- to maintain a consistently strong credit rating and investor confidence
- to balance member credit unions' desire for a return on capital with the capital requirements of Alberta Central to fulfill its liquidity mandate

Alberta Central's capital levels are regulated under guidelines issued by OSFI and Alberta Treasury Board & Finance. These regulations require Alberta Central to maintain a prescribed borrowing multiple, the ratio of borrowings to regulatory capital. Federal regulation (OSFI) requires Alberta Central to maintain a borrowing multiple of 20:1 or less while provincial regulation (Alberta Treasury Board & Finance) requires Alberta Central to maintain a borrowing multiple of 15:1 or less.

As an integral component of its capital management, Alberta Central has established internal operating capital targets below the regulatory maximum to ensure it has appropriate buffers to absorb increases in member deposits or loans and notes payable and/or reductions in its capital. Establishing internal operating capital targets allows Alberta Central to practice prudent capital management.

For the years ended December 31, 2012 and 2011, Alberta Central's capital levels exceeded both regulatory and internal capital requirements. The table below summarizes the composition of regulatory capital:

	2012	2011
Common shares	199,285	193,736
Retained earnings	78,535	49,719
Less:		
Prepaid expenses	411	416
Deferred income tax asset	629	3,504
Net after-tax unrealized losses on available-for-sale debt securities	–	3
Investment in Cellero excluding equity accounted losses	3,773	4,081
Total regulatory capital	273,007	235,431
Excess of total regulatory capital over provincial capital requirements	128,172	105,711

20 Financial Risk Management

Alberta Central's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Alberta Central's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the company's financial performance.

a) Credit Risk

Alberta Central takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss for Alberta Central by failing to discharge an obligation. Credit exposures arise from investment activities that bring debt securities and derivatives into Alberta Central's securities and derivatives portfolios, lending activities that lead to loans, and deposits held with third party financial institutions. Alberta Central is party to financial instruments with off-balance sheet credit risk that, in the normal course of operations, are used to meet its own and its credit union members' financial needs. These instruments include commitments to extend credit, standby letters of credit and financial guarantees. The average term of commitments is one year. In the normal course of operations, these commitments may expire without being utilized.

Alberta Central's maximum exposure to credit risk, including undrawn commitments, without taking account of any collateral held or other credit enhancements is:

	2012	2011
Cash at other financial institutions	87,873	36,969
Securities	1,928,770	1,664,604
Derivatives	10,805	12,181
Accounts receivable and other assets	4,864	5,752
Loans outstanding and undrawn commitments	1,645,894	1,639,359
Standby letters of credit and financial guarantees	10,948	10,163
	3,689,154	3,571,028

Alberta Central, as the manager of the Alberta credit union system liquidity pool, is responsible to develop an earning asset base while providing for borrowing needs of Alberta credit unions and their members. Alberta Central manages credit exposure on investment activities by adhering to an *Investment Policy* which identifies a basic standard of investment quality. Alberta Central's fair value estimate of its holdings of ABCP represents bid pricing as, in management's view, an active market now exists for the more significant classes of notes in bank and non-bank sponsored ABCP (Note 7). There have been no other significant changes in credit risk in securities from the prior year.

Alberta Central's lending function focuses on the provision of loans to member credit unions and is closely integrated and coordinated with Alberta Central's liquidity management role. In addition, all of Alberta Central's commercial lending is provided on a syndicated basis with credit unions. Alberta Central or an individual credit union may be positioned as the lead lender for any commercial loan. Approval for all syndicated loans is obtained from the Credit Union Deposit Guarantee Corporation (CUDGC). Alberta Central's credit risk exposure related to its commercial lending function is mitigated where it is not the lead lender, as management performs its own monitoring of its commercial loan portfolio. In addition, total commercial loans, leases, guarantees, interests in pooling funds, other loans held and guarantees given by Alberta Central shall not exceed 150 percent of Alberta Central's members' equity as at the end of the previous fiscal year.

Alberta Central structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or groups of borrowers. Such risks are subject to an annual or more frequent review by management, when considered necessary.

Alberta Central employs and is committed to a number of important principles to manage credit exposures, which include:

- *a board approved Lending Policy*
- *a management Credit Committee whose duties include review of lending policies and approval of larger credits*
- *delegated lending authorities, which are clearly communicated to personnel engaged in the credit granting process, a defined approval process for loans in excess of these limits and the review of larger credits by senior management personnel prior to recommendation to the management Credit Committee*
- *use of a credit risk classification system, which assigns a risk rating to all syndicated commercial loans that are reviewed on a regular basis*
- *employment of personnel engaged in credit granting who are qualified and experienced in lending*
- *lending policies which are communicated to employees whose activities and responsibilities include credit granting and risk assessment*
- *annual reviews of loans*
- *independent reviews by Alberta Central's internal audit group, which includes reporting the results to the management Credit Committee and Alberta Central's Audit and Finance Committee*

The following tables show Alberta Central's maximum lending exposure to credit risk by industry and by portfolio, without taking account of any collateral held or other credit enhancements. Alberta Central's commercial loans and mortgages credit portfolio is 97.5 percent (2011 – 96.7 percent) concentrated in Alberta.

Credit Risk Exposure by Industry

			2012	2011
	Outstanding	Undrawn Commitments	Total Exposure	Total Exposure
Real estate	120,294	2,408	122,702	121,831
Hospitality	37,622	2,362	39,984	38,054
Finance and insurance	251,676	1,137,604	1,389,280	1,382,589
Health care	23,282	–	23,282	25,756
Retail	1,728	21,941	23,669	24,152
Technology	5,710	41,267	46,977	46,977
	440,312	1,205,582	1,645,894	1,639,359

Credit Risk Exposure by Portfolio

	Outstanding	Undrawn Commitments	2012 Total Exposure	2011 Total Exposure
Credit unions	248,610	1,132,604	1,381,214	1,372,951
Commercial loans and mortgages	181,576	35,770	217,346	215,981
Cooperatives	2,481	21,941	24,422	25,935
Cdcorp	5,710	15,267	20,977	20,977
Employee mortgages	1,935	—	1,935	2,475
	440,312	1,205,582	1,645,894	1,639,359

Collateral for the lending portfolio generally is as follows:

- *credit unions: general security agreements with eleven of the largest credit unions and from the remainder of the credit unions a security agreement over their accounts and instruments*
- *commercial loans and mortgages: secured primarily by real estate, as well as a personal or corporate guarantee with a loan to value ratio of less than 75 percent at origination of the loan*
- *cooperatives: secured by real estate*
- *Cdcorp: general security agreement*
- *employee mortgages: secured by the residence*

Alberta Central considers all loans two months or more in arrears to be past due. At December 31, 2012 there was one loan in the amount of $1,091 that was past due but not impaired. At December 31, 2011, there were no past due unimpaired loans.

The credit quality of the securities can be assessed by reference to the rating system of DBRS, Moody's Corporation or Standard & Poor's Corporation. Alberta Central's *Investment Policy* states that the statutory investments held must be rated at least R-1 or P-1 for commercial paper and A for bonds. The credit risk related to equity investments in affiliates and cooperatives is limited as the *Credit Union Act of Alberta* restricts Alberta Central's investment in such entities to ten percent of members' equity.

Alberta Central enters into various derivative contracts in the normal course of its business, including interest rate swaps, call options, index options and foreign exchange forwards. The instruments are used to meet the needs of member credit unions. Other than credit risk, Alberta Central does not accept any net market risk exposure to derivative contracts entered into on behalf of member credit unions as it enters into offsetting contracts with other financial institution counterparties. Derivative assets and liabilities are marked to market with net changes in value recorded in net income. All non-credit union derivative counterparties are with major Canadian financial institutions rated AA or higher. Under its *Investment Policy*, Alberta Central has established trading limits for each institution.

The following table shows details of Alberta Central's derivative financial instruments:

Favourable Contracts

	2012		2011	
	National Amount	Fair Value	National Amount	Fair Value
Interest rate swaps	161,869	2,913	174,751	5,773
Index options	120,955	7,892	92,816	6,408
	282,824	10,805	267,567	12,181

Unfavourable Contracts

	2012		2011	
	National Amount	Fair Value	National Amount	Fair Value
Interest rate swaps	161,869	2,913	174,751	5,773
Index options	120,955	7,892	92,816	6,408
	282,824	10,805	267,567	12,181

The weighted average interest rate paid on interest rate swaps with credit unions was 1.97 percent (2011 – 1.85 percent). The weighted average interest rate received on interest rate swaps with credit unions was 3.49 percent (2011 – 3.49 percent). The net exposure is offset through interest rate swaps entered in with other financial institution counterparties.

On July 5, 2011, Alberta Central entered into a Credit Support Annex, which requires Alberta Central to pledge cash to the extent of the net value of swaps with a certain major Canadian financial institution decreases below a specified level. Cash and cash equivalents on the consolidated statement of financial position includes $770 (2011 – $770) of cash pledged with the financial institution.

b) Liquidity Risk

Liquidity risk is the risk that Alberta Central will encounter difficulty in meeting obligations associated with financial liabilities when they fall due. To mitigate this risk, management has arranged diversified funding sources, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis. Alberta Central's sources of funding are deposits from member credit unions, its commercial paper program and a line of credit with Central 1.

The majority of deposits from member credit unions are required by regulation as Alberta Central is the prescribed liquidity manager for Alberta's credit unions. Alberta Central's bylaws require Alberta credit unions to maintain a minimum of one percent of their assets as share capital in Alberta Central. Credit unions are also required to maintain liquidity deposits at Alberta Central such that the total liquidity deposits and share capital with Alberta Central comprise nine percent of the credit union's liabilities.

As discussed in Note 14, effective July 6, 2011, Alberta Central, Central 1 and the credit union centrals of Manitoba and Saskatchewan entered into a new group clearing arrangement under the terms of the *Credit Union System Group Clearing Agreement*. The participating centrals also entered into the *Inter-Central Liquidity Agreement*, which replaces the former *National Liquidity Fund Agreement*. The *Inter-Central Liquidity Agreement* provides emergency liquidity to a participating central in the form of a loan through a multi-lateral credit facility, whereby Alberta Central has committed $400,000. Under the terms of the *Inter-Central Liquidity Agreement*, Alberta Central is required to maintain a minimum of six percent of its provincial system's assets in certain qualifying liquid assets.

Provincial legislation also requires Alberta Central to maintain six percent of Alberta credit union system assets in government securities or certain other qualifying liquid assets maturing within one year. One third of this amount must mature within 90 days. The required balance in qualifying liquid assets under the *Inter-Central Liquidity Agreement* and provincial legislation at December 31, 2012 was $1,223,691 (2011 - $1,128,407). Alberta Central's liquidity reserves, which measured by year-end balances, were in excess of the requirements under the *Inter-Central Liquidity Agreement* and those under provincial legislation.

Contractual maturities for financial liabilities are shown in the table below:

	Within 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Greater Than 5 Years	Total
Members' deposits	1,812,639	329,776	–	–	2,142,415
Loans and notes payable	24,983	–	–	–	24,983
Derivative financial liabilities	2,117	21	8,667	–	10,805
Other liabilities	10,514	–	–	–	10,514
December 31, 2012	1,850,253	329,797	8,667	–	2,188,717
December 31, 2011	1,203,567	668,396	11,128	–	1,961,091

c) Market Risk

Market risk is comprised of three types of risk: foreign exchange risk, interest rate risk and other price risk.

Foreign Exchange Risk

Foreign exchange risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. Foreign exchange risks exist mainly as a result of the existence of financial assets, derivatives and financial liabilities denominated in foreign currencies. The risk associated with changing foreign currency values is managed under Alberta Central's *Investment Policy*, which limits net exposures that can be maintained in various currencies. Alberta Central is not exposed to significant foreign exchange risk.

Interest Rate Risk

Interest rate risk is the risk that net interest income will be adversely impacted by changes in market interest rates. This risk occurs as a result of disparity in the re-pricing dates and basis (e.g., the benchmark interest rate) of interest rate sensitive financial assets, derivatives and financial liabilities. Alberta Central uses simulation modeling to monitor and manage interest rate risk. It also uses gap analysis to assess interest rate risk by measuring the difference between the amount of financial assets and financial liabilities that re-price in a particular time period.

Alberta Central's interest rate sensitivity position at December 31, 2012, as presented in the following tables, is based upon the contractual re-pricing and maturity dates of assets and liabilities. The table shows the cumulative gaps at various intervals. As Alberta Central's holdings of ABCP were converted to floating rate notes (Note 7), the related assets have been grouped in the 'within three months' category, as the interest rates re-price during that time period.

	Within 3 Months	From 3 Months to 1 Year	From 1 to 5 Years	Greater Than 5 Years	Non-Interest Sensitive[1]	Total
Assets						
Cash and cash equivalents	88,047	–	–	–	7,142	95,189
Securities	1,524,837	426,662	159	–	(23,088)	1,928,770
Loans	268,563	71,470	85,061	15,218	(14,615)	425,697
Derivative financial assets	2,117	21	8,667	–	–	10,805
Other assets	–	–	–	–	7,653	7,653
	1,883,564	498,353	93,887	15,218	(22,908)	2,468,114
Weighted average interest rate	1.07%	1.46%	4.51%	4.22%	–	1.31%
Liabilities and Members' Equity						
Members' deposits	1,795,296	329,776	–	–	17,343	2,142,415
Loans and notes payable	24,969	–	–	–	14	24,983
Other liabilities	–	–	–	–	10,514	10,514
Derivative financial liabilities	2,117	21	8,667	–	–	10,805
Members' equity	199,285	–	–	–	80,112	279,397
	2,021,667	329,797	8,667	–	107,983	2,468,114
Weighted average interest rate	0.97%	0.98%	2.80%	–	–	0.94%
Total interest rate sensitivity gap	(138,103)	168,556	85,220	15,218	(130,891)	–
Cumulative interest rate sensitivity gap:						
December 31, 2012	(138,103)	30,453	115,673	130,891	–	–
December 31, 2011	(129,808)	14,508	93,526	104,669	–	–

[1] Provisions on Other Assets and Derivatives are included within Interest Sensitive.

The following represents Alberta Central's interest rate risk position:

	2012	2011
Impact on market value of members' equity from:		
Increase in interest rates of 100 basis points	(3,170)	(2,670)
Increase in interest rates of 200 basis points	(8,235)	(5,261)
Decrease in interest rates of 100 basis points	4,391	2,753
Decrease in interest rates of 200 basis points	8,982	5,593

Other Price Risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument, including derivatives, will fluctuate because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market. Alberta Central's most significant other price risk relates to its holdings of ABCP (Note 7). Alberta Central manages its other price risk by adhering to an *Investment Policy*.

21 Fair Value of Financial Instruments

The fair value of Alberta Central's financial instruments is determined as follows:

- *ABCP – determined based on bid prices, as described in Note 7*
- *held for trading and available-for-sale securities – based on quoted market prices*
- *held to maturity securities – based on discounted cash flow model using market rates for similar securities*
- *loans receivable, members' deposits, and loans and notes payable – based on discounted cash flow model using market interest rates for similar instruments*
- *derivative financial instruments – based on recent market transactions for similar derivative instruments or if recent market transactions are not available, based on discounted cash flow model*

The fair value of certain unquoted equity securities classified as available-for-sale securities cannot be reliably measured because trading is restricted, no market exists and they are issued by CUCC or other co-operative entities, or prices from recent market transactions are not available. Therefore, fair value information has not been disclosed and these securities are carried at their cost of $1,402 (2011 – $1,402). Alberta Central holds one available-for-sale equity security which does not have a quoted market price in an active market; however, it is recorded at its fair value of $4,510 (2011 – $4,510) based upon the most recent transaction. Alberta Central has no plans to dispose of these securities as of the year-end.

The fair value of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, and loans and notes payable approximates their carrying value due to their short-term nature.

The fair value and related carrying value of all financial instruments, excluding those whose fair value and carrying value are the same or are presented at fair value in the consolidated financial statements, have been summarized below:

	2012		2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets				
Loans	425,697	439,157	249,492	253,869
Held to maturity securities	19,898	20,000	–	–
Financial liabilities				
Members' deposits	2,142,415	2,142,587	1,840,096	1,841,321

Financial instruments measured at fair value on the consolidated statement of financial position must be classified within a hierarchy that prioritizes the inputs to fair value measurements. The three levels of the hierarchy are:

- *Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities*
- *Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and*
- *Level 3 – Inputs that are not based on observable market data*

Financial assets at fair value at December 31:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	95,189	–	–	95,189
Securities				
Held for trading	–	242,547	–	242,547
Available-for-sale	–	1,661,046	–	1,661,046
Derivative financial assets	–	10,805	–	10,805
December 31, 2012	95,189	1,914,398	–	2,009,587
December 31, 2011	67,856	1,743,788	128,254	1,939,898

The method used to determine the fair value of Alberta Central's holdings in ABCP changed from a discounted cash flow model to bid pricing in June 2012 (Note 7). Therefore, ABCP principal of $157,433 (2011 – $128,254) which was previously classified as Level 3 is now classified as Level 2.

The following table shows a reconciliation from the beginning to ending balances for fair value measurements in Level 3 of the fair value hierarchy:

	ABCP
Balance at January 1, 2012	129,254
Total gains recognized in net income	32,000
Sales	(333)
Principal repayments	(2,488)
Transfers out of Level 3	(157,433)
Balance at December 31, 2012	–

Financial liabilities at fair value at December 31:

	Level 1	Level 2	Level 3	Total
Derivative financial liabilities	–	10,805	–	10,805
December 31, 2011	–	12,181	–	12,181

22 Comparative Amounts

During the year, Alberta Central reclassified the investment in Celero from securities to other assets in the consolidated statement of financial position. Alberta Central's share of the net operating losses of Celero and Everlink has also been reclassified from accounts payable and accrued liabilities to other assets. Comparative amounts in the consolidated statement of financial position were reclassified for consistency, which resulted in a reclassification of $4,081 from securities and $939 from accounts payable and accrued liabilities to other assets.

23 Events After the Reporting Date

On February 22, 2013, Alberta Central's board of directors declared a share capital dividend to members of approximately $4.0 million for payment on March 15, 2013. The board also declared a patronage distribution of $25.0 million to Alberta credit unions for payment on March 15, 2013.

about alberta central

community initiatives

Alberta Central and our member credit unions are anchored in the communities we serve. Significant value is placed on providing resources needed to help communities achieve success. Our support is provided through financial donations, volunteerism, services and scholarships for local and international initiatives and charitable organizations.

In 2012, Alberta Central employees demonstrated our commitment to community support through various initiatives:

- *Alberta Central and Celero employees raised over $25,000 in support of Calgary's United Way Campaign.*
- *Alberta Central and CUPS collected over $4,000 in goods for two sponsored families as part of the Adopt-a-Family program – an initiative hosted by the Calgary Sun and the Salvation Army inviting Calgarians to sponsor families in need by donating gifts the families identified as necessary.*
- *The year 2012 marked a ten-year contribution of nearly $840,000 to the Co-operative Development Foundation, an organization that aims to make the world a better place by reducing poverty in Africa, Asia and Latin America. In addition to Alberta Central's contributions, Alberta credit unions contributed over $1.0 million to the Co-operative Development Foundation over the past ten years.*

- Alberta Central created a memorial scholarship and bursary to the Alberta College of Art and Design (ACAD) to honor and remember employee Jeanne Shaw and the years of professional and personal contributions she made to the lives of her colleagues, friends and family. The "Alberta Central/Jeanne Shaw Memorial Scholarship" will be awarded annually, for a three-year term, to students enrolled at ACAD who demonstrate the need for financial assistance or to those who demonstrate exceptional work and academic achievement.
- In addition to a variety of scholarships aimed at supporting the children of Alberta credit union and Alberta Central employees who are undertaking post-secondary education, Alberta Central also continues to fund an annual scholarship and bursary for students enrolled in Mount Royal University's criminal justice program. These awards are made in memory of Alberta Central's former board chair, Jack Paterson, who had a long career with the RCMP.

services and affiliates

At Alberta Central, our goal is to be a key strategic partner for Alberta credit unions. Through our commitment to service, and with the help of our dedicated employees, we are helping our credit unions meet the expectations of their members. We continue to work side by side with a single goal in mind: to help our system grow, prosper and achieve success so that our credit unions become the financial institutions of choice for Albertans.

Services

Lending

- *credit union loan program*
- *commercial loan syndication program*
- *mortgage pooling*
- *agricultural, commercial, residential and consumer lending support*
- *development and marketing of operational manuals*
- *liaison for provincial and national lending committees, legislation and task forces*

Treasury

- *liquidity and investment management*
- *foreign exchange*
- *derivative strategy consulting*
- *asset liability management consulting*

Risk Management

- *system representation on national and industry risk committees*
- *management of system fraud awareness and loss prevention training*
- *master policy holder for credit union master bond program*
- *risk management support for the system*

Audit

- *internal audit services*
- *credit union audit services*

Central Purchasing

- *environmentally-focused local and national product sourcing and procurement*
- *inventory management and distribution*
- *discount programs*
- *direct mail services*
- *banking, promotional and service award products*

Government Relations/Strategic Planning/Communications

- *facilitation of system strategic planning and decision making*
- *provincial and federal government relations support and advocacy*
- *system representation on national and industry committees and affiliate organizations*
- *management of system communication programs*

CUPS

- *image-based cheque and deposit processing services*
- *remittance and lockbox processing*
- *paper and electronic lead bank processing*
- *electronic bill payment processing*
- *paper and electronic statement processing services*
- *integrated document imaging and records management services*
- *customer automated funds transfer (CAFT) and automated funds transfer (AFT)*
- *wire transfer payments*
- *ATM/POS settlement and reconciliation*
- *distribution and mailroom services*
- *cash processing services*

Celero

Celero's eroWORKS® product suite includes:

- *eroWORKS® Retail Banking core platform*
- *asset liability management module*
- *loans participation module*
- *customer relationship management module (cView)*
- *digital report view and archive (e-Report and e-Retrieval)*
- *safety deposit box module*
- *optimize training, reporting and consulting*
- *hot card services*

Celero's eroSERVE complete business and financial technology services include:

- *Internet banking, powered by MemberDirect® Services, including mobile services telephone banking*
- *loans origination system*
- *switch transaction services*
- *risk management tools, such as anti-money laundering and fraud detection, disaster recovery, monitoring and intrusion prevention*
- *application and hosting services*
- *applications integration*
- *messaging, including e-mail and smart phone services*
- *network services including local (LANS), wide area (WANS), metropolitan area (MANs), and virtual private network (VPN) solutions and internet service provider (ISP) services*
- *network application trouble detection and analysis services*
- *custom product and application development*
- *high-availability infrastructure and data centres managed by IBM*
- *desktop computing support*
- *business solutions consulting*
- *client care services*
- *member support services, delivered by Sonoma Technical Support*

Alberta Central Affiliates

Joint Ventures

Celero

Employees: 267

Clients: Over 152

Annual Operating Budget: Approximately $82 million

Owners: Alberta Central (31.4 percent), Credit Union Central of Manitoba, SaskCentral, Concentra Financial

CUPS

Employees: 144

Clients: Over 144 credit unions, corporations and other financial institutions

Transactions Processed: Over 150 million transactions

Owners: Alberta Central (50.0 percent), SaskCentral

Affiliate Investments

Credit Union Central of Canada

Employees: 62

Net Trade Division Assessment: $8.5 million

Owners: Provincial centrals, Alberta Central (14.4 percent) and other members

Concentra Financial

Employees: 281

Assets Under Administration: $27.9 billion

Corporate Assets: $5.8 billion

Owners: Provincial centrals, Alberta Central (3.0 percent), credit unions, CUMIS, The Co-operators

Credential Financial Inc.

Employees: 251

Credit Union Partners: 225 across Canada

Assets Under Administration: $13.8 billion

Owners: Provincial centrals, Alberta Central (6.5 percent), other centrals; CUMIS

Northwest & Ethical Investments L.P. (NEI)

Employees: 90

Assets Under Management: $4.97 billion

Owners: Provincial centrals, Alberta Central (6.5 percent), other centrals; Desjardins Group

corporate governance

Board of Directors
Alberta Central's board is comprised of 13 directors who represent four credit union regions. Two of the regions are determined geographically (North and South) and two regions are comprised of the largest credit unions in Alberta (Servus Credit Union and First Calgary Financial).

Director Entitlement

Region A: 5
Servus

Region B: 2
First Calgary Financial

North Region: 3
Battle River, Beaumont, Christian, Eckville, Edson, Caisse Horizon, Lakeland, River City, Rocky, S.G.E., University Hospital, Vermilion, Wainwright, Wetaskiwin

South Region: 3
1st Choice, Bow Valley, Calgary Police, Canada Safeway, CHEC, Chinook, City Plus, Inglewood, Khalsa, Legacy Savings, Lethbridge Legion, Mountain View, Pegasus, Pincher Creek, Shell, Stanco, TransCanada

Director Roles and Responsibilities
The board of directors, representing Alberta member credit unions, is responsible for overseeing the management of Alberta Central, providing recommendations and approval of strategic plans, and ensuring the interests of Alberta Central and the credit union system are represented. The role and responsibilities of Alberta Central's board and the president and CEO are outlined in Alberta Central's corporate policies, bylaws and terms of reference for each board standing committee.

Board Committees
Alberta Central's board has standing committees responsible for both legislated and delegated functions. The committees are comprised of Alberta Central directors, and management acts as resources for the committees. Each committee meets regularly throughout the year and is required to provide timely and regular reports to the board of directors.

The chairs of each committee are elected by the members of the respective committees. The chair of the board is a voting ex-officio member of all of the board standing committees.

Governance Committee
The Governance Committee is comprised of six directors. The committee has oversight responsibility for Alberta Central's corporate policies and governance practices. Every two years, the committee ensures that board standing committees' terms of reference, Alberta Central's board remuneration policy and Alberta Central's other corporate policies are reviewed and updated as required. The Governance Committee also ensures that a board self-assessment process is conducted every year in order to maximize the effective functioning and performance of the board, and is responsible for making recommendations to the board to address any issues identified through the self-assessment process. This committee remains informed of best practices in corporate governance and makes recommendations to the board to continually improve Alberta Central's governance practices. Upon the elimination of the Executive Committee in 2012, the Governance Committee now manages the performance review process and compensation of the president and CEO on an annual basis.

Audit and Finance Committee
The Audit and Finance Committee is comprised of six directors. The committee has oversight and responsibility for financial and risk management, regulatory compliance and the external audit appointment through the *Investment Policy*, *Lending Policy*, *Capital Policy*, *Stress Testing Policy*, *Enterprise Risk Management Policy* and *External Audit Services Policy*. It also provides oversight of Alberta Central's internal audit function. The committee meets directly with and reviews reports prepared by internal and external auditors (as required), and ensures compliance with Alberta Central's bylaws and financial policies. The committee is also responsible for reviewing and recommending to the board the internal audit mandate and internal and external annual audit plans, audited financial statements, annual budget, ICAAP and capital plan as well as reviewing Alberta Central's financial, risk management, regulatory compliance, lending and treasury reports. The committee meets with the internal and external auditor at each meeting, both with and without management present.

Conduct Review Committee
The Conduct Review Committee is comprised of the same six directors as the Audit and Finance Committee, and the chair of the committee is the same as that of the Audit and Finance Committee. To ensure compliance with the requirements of the *Cooperatives Credit Associations Act* (CCAA) with respect to related party transactions, the committee was established to provide oversight and responsibility for managing compliance with the CCAA. Any related party transactions of board members and executive management are reviewed by the Conduct Review Committee, which is responsible for reporting any violation of related party rules to OSFI.

Internal Controls
Alberta Central's internal audit team, under the direction of the board's Audit and Finance Committee, periodically assesses the effectiveness of internal control procedures. As part of Alberta Central's regulatory compliance self-assessment procedures, an independent audit of compliance reports prepared by Alberta Central's chief compliance officer is reviewed on an annual basis. The findings and recommendations of the internal audit team are reported to Alberta Central management and the Audit and Finance Committee to ensure appropriate internal controls are in place, and continued compliance with applicable regulatory requirements.

Risk Management
To effectively manage risk, the board has established *Enterprise Risk Management Policy* risk appetite statements and receives risk reporting from management at each board meeting. At a management level, risk management within Alberta Central is addressed in three management committees. A management risk committee, comprised of the executive management team, regularly assesses the key risks Alberta Central faces and updates the board on its risk assessments. A management credit committee, comprised of the executive management team and other senior management personnel, regularly assesses the loan portfolio of Alberta Central and approves all loan applications within the board approved lending limits and risk appetite. An asset liability committee comprised of executive management and other senior management personnel, meets on a quarterly basis to formally review Alberta Central's investment portfolio management and compliance with risk appetite and to policy.

Conduct and Accountability
Alberta Central has policies and procedures that promote professional and ethical behaviour and in addition has recently implemented a *Code of Conduct* which outlines the standards of conduct to which employees and directors must adhere in performing their duties for the organization. On an annual basis, Alberta Central's employees are required to review and certify their understanding of and compliance with the specified business conduct policies. Alberta Central's directors annually complete an oath of office and conflict of interest declaration, which outline their obligations with respect to the *Code of Conduct*, confidentiality of Alberta Central business matters, and related party transaction rules.

Disclosure of Governance Practices
Developments in corporate governance in Canada for public companies require a full disclosure of corporate governance practices, and the Ontario Securities Commission has published a disclosure guideline specific to this requirement. In accordance with these developments in corporate governance best practices, Alberta Central now voluntarily discloses its governance practices in its annual report.

Board Independence
Alberta Central's board is comprised entirely of independent, non-employee directors. In furthering the independence of its directors, Alberta Central's board meets independently of management as part of every scheduled meeting. The board also meets with the external auditor without management present, at least annually and the internal audit function also has direct access to the board's Audit and Finance Committee. The board may independently engage outside professional advisors and is empowered to do so by Alberta Central's bylaws.

Board Self-Assessment
The board conducts an annual self-assessment process to evaluate the effectiveness of the board as a whole. Alberta Central's executive management team participates in the board assessment process (at the invitation of the board) to provide input and recommendations on board effectiveness and process. The board also conducts a director skills self-assessment and peer assessment as part of this process. The data received from this report is used by the Governance Committee to discuss skill gaps in the board and assist the committee in making recommendations with respect to board recruitment and development processes. The feedback is also used by individual directors in planning their professional development activities.

Director Orientation and Development
All directors participate in an orientation session upon appointment to the board to assist them in carrying out their roles and responsibilities as directors. Each director is provided with the opportunity and budget to attend courses, seminars and conferences of their choice for professional development activities relevant to their role on Alberta Central's board.

Director Remuneration
Directors receive remuneration in the form of monthly honoraria, per diem fees for attendance at board meetings and compensation for travel time and expenses. The total remuneration and expenses paid to Alberta Central directors is disclosed in Note 18 to the consolidated financial statements.

board and management team

Board of Directors

Raymond Coates
Board Chair
North Region

Alison Starke*
Second Vice Chair
Region A

Perry Dooley**
Region A

Ian Glassford*
Region A

Taras Nohas**
Region A

Darcy Peelar**
Region A

Paul Kelly*
First Vice Chair
Region B

Stella Thompson**
Region B

Garth Yeomans*
Secretary
North Region

Ken Morris*
North Region

Maurice Landry**
South Region

John Richter*
South Region

John Stutz**
South Region

Management Team

Graham Wetter
President & CEO

Anne Gillespie
Chief Financial Officer

Duane Blahun
Vice President,
Payment Services

Sean Lesy
Vice President,
Financial Services

Paul Rossmann
Vice President, Strategy
& Corporate Development

Susan Borrows
Assistant Vice President,
Human Resources

Peter Davis
Assistant Vice President,
Government Relations

Pat Dolan
Assistant Vice President,
Treasury

Greg Feniak
Assistant Vice President,
Relationship Management & Sales

Catherine Haggerud
Assistant Vice President,
Strategy & Credit Union
Engagement

Chris Laxton
Assistant Vice President,
Risk Management and
Credit Union Audit Services

Shannon Rennie
Assistant Vice President,
Corporate Counsel

Francine Soko
Assistant Vice President,
Operations

Patricia van de Sande
Assistant Vice President,
Regulatory Compliance
and Internal Audit

Susan Greenaway
Corporate Secretary

* *Audit and Finance and Conduct Review Committees*
** *Governance Committee*

AlbertaCentral